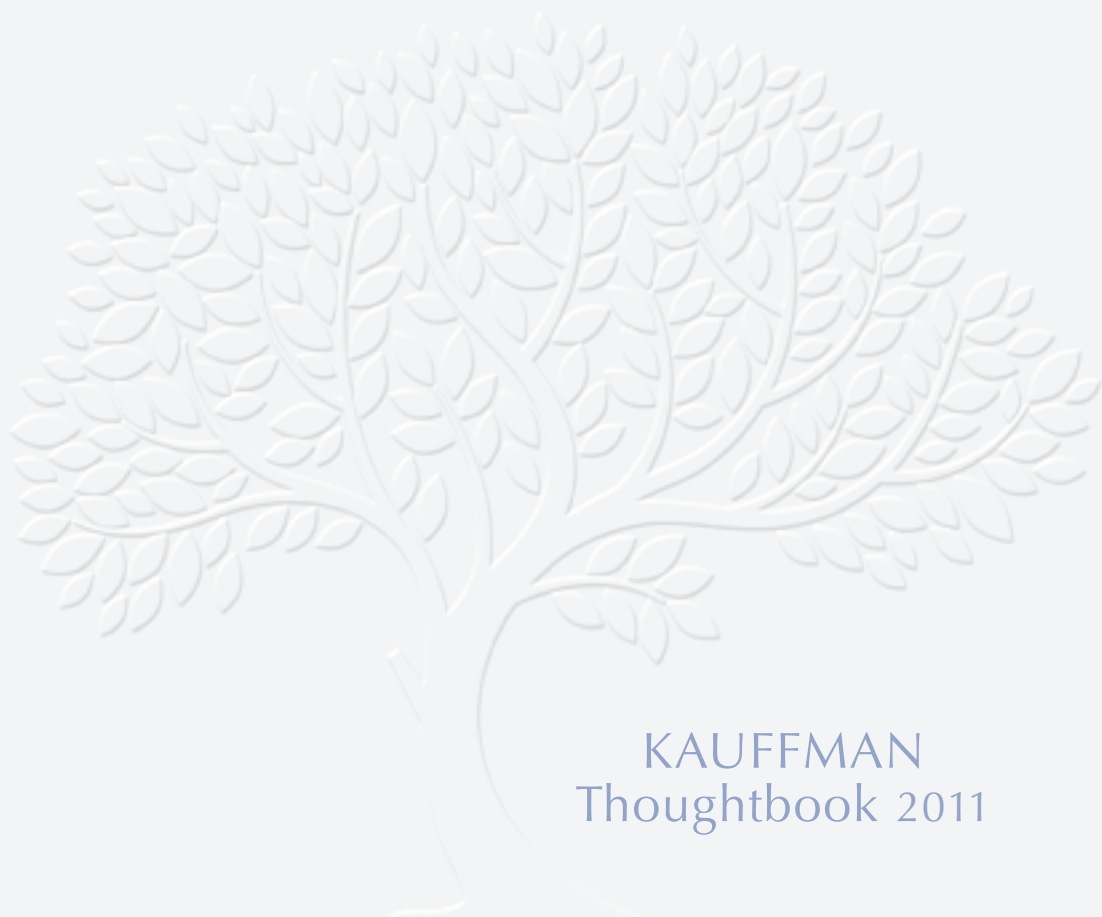


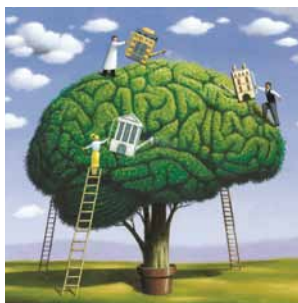
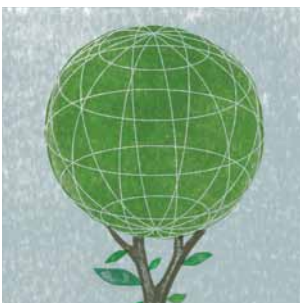
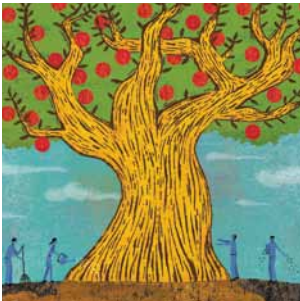
“Every day you may  
make **progress** ... Yet there  
will stretch out before you an  
ever-lengthening, ever-ascending,  
**ever-improving** path. You  
know you will never get to the  
end of the journey. But this, so far  
from discouraging, only adds to  
the **joy** and **glory** of the climb.”



KAUFFMAN  
Thoughtbook 2011



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Cover quotation by Sir Winston Churchill.





## Growth Is Good

THOMAS A. McDONNELL

Chairman, Board of Trustees, Ewing Marion Kauffman Foundation

*Greed, no. Growth, yes.* On the cover of this year's Thoughtbook, along with a quotation from Winston Churchill, you'll notice a tree. Trees are firmly rooted, but they are never static. Starting from seeds, they grow into fullness, and throw off the seeds of new growth. A tree also will adapt to changes in its surroundings, by growing branches that reach around its neighbors or the corner of a wall, reaching for the light.

And every spring we look forward to the time when the trees that have shed their leaves will grow new ones—just as a lot of us, during the recent recession, have looked forward to a new wave of economic growth.

Naturally, growth can bring problems. If there are trees near your home, you've probably had to trim the branches or deal with the roots that grow into troublesome places. If you have teenagers in your home, you may know all about the challenges of growth. But the alternative, no growth? Unthinkable.

Growth is good, and we have made it a theme of the Thoughtbook because the work of the Kauffman Foundation is ultimately aimed at fostering growth in its various forms. Our work in entrepreneurship has the ultimate goal of driving economic growth, which, in turn, is the key to richer and fuller lives for all. As for our other field, the education of children and youth, that's a growth mission from day one.

This year's book includes essays and articles by eminent guest authors, such as Wendy Kopp of Teach For America and U.S. Commerce Secretary Gary Locke. We have a distinguished economist, William Baumol, and an irreverent journalist, the high-tech blogger Robert X. Cringely.

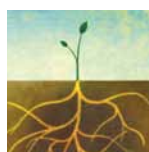
... the work of the Kauffman Foundation is ultimately aimed at fostering growth in its various forms.

Foundation associates have written pieces describing our initiatives, in terms of both the thinking behind them and the progress being made. Plus, as usual, there are many contributions from our partners and grantees. Highlights include an analysis of the different "types" of entrepreneurs (written by a serial entrepreneur) and a look at the charter school the Foundation is launching.

The book, like our work, addresses issues on multiple levels. For instance, in addition to the ground-level work of helping to build better startup companies or schools, we strive to foster growth at the policy level. In these pages you can read a preview of the Foundation's new book, *Rules for Growth*, about the legal and regulatory frameworks conducive to economic growth, and an article on our "Personalized Health Manifesto," a document calling for policies that can grow the quality and availability of health care without growing the costs.

Finally, much of our most valuable work is done at the levels of research and theory. Our president and CEO, Carl Schramm, likes to quote the psychologist Kurt Lewin: "There's nothing more practical than a good theory." Mr. Schramm has some good theories of his own, so why not start with his opening essay on page 8?

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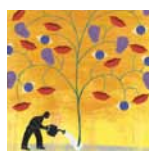


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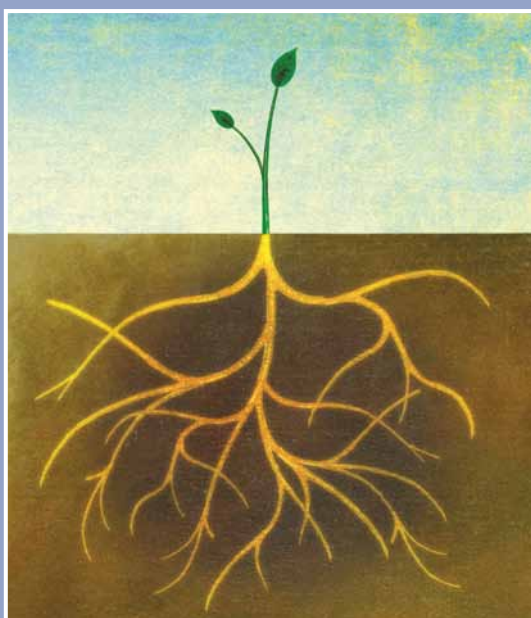
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# Creating Growth





## Thoughts on Creating the Future

CARL J. SCHRAMM, Ph.D.

President and Chief Executive Officer, Ewing Marion Kauffman Foundation

This is a book about creating the future, which, of course, is the business of any good organization. Whether you work at a nonprofit entity or a for-profit company, your ultimate job description is to bring something new into the world, something that will make life better in some sense.

At Kauffman, we've come to realize that our business is creating the future in a meta-sense. Mr. Kauffman gave the Foundation two fields of interest, education and entrepreneurship. Both have to do with essential human processes by which new things, and new capabilities, are brought into being. In both, the goal is to study and improve those processes, so that more people are more able to create the futures they envision for themselves.

You could say that this work involves the key enabling technologies of human advancement. We simply call it the greatest adventure one could imagine. The work is so fundamental that it just keeps growing and branching out. It is carrying us into new kinds of initiatives, with ever-growing networks of partners, and, in the course of expansion, another fact has become clear.

This business of future-creation is so common to all of us that it also draws us together. Our fields, and the many people we work with, all are growing more closely intertwined.

More than once in recent years, the directions our work is taking have led us to marvel at the truth of the saying that “everything is connected.” And, more than once, we have seen what “synergy” really means: The more that people and initiatives truly work together, the more they grow.

### On the Deep Level, It’s All Connected

In the Foundation’s early days, our operations in entrepreneurship and education were mostly separate, with only one significant point of intersection. We saw (as did many others) that entrepreneurship was not a black art, but rather comprised of a set of skills that could be learned and taught. So we supported the teaching of it, primarily at colleges and universities. This long-running effort has helped change higher education to the extent that nearly all four-year institutions in the United States, and many two-year community colleges as well, now have courses and programs in entrepreneurship.

But, for years, there was little cross-fertilizing with our core work in education. In that field, we focus on learning in the K–12 grades. Although we had a couple of highly successful programs to introduce children and young people to the principles of entrepreneurship, the two fields were still just touching at an obvious intersection. They weren’t really advancing each other broadly, to the extent they could.

Today they are. For example, in Kansas City, our home region, we have long worked with local school districts to help augment what they do in areas from math and science teaching to college preparation for less-advantaged youth. In one outgrowth of that work, we now are founding a charter school. As the nation’s first public school operated by a private foundation, it will be an independent, cross-sector prototype for new approaches to learning across the

board. And—since the school itself is a complex startup—we are striving to get it right by applying what we have learned about entrepreneurship.

Meanwhile, a major recent initiative in entrepreneurship is Kauffman Labs for Enterprise Creation. This is a unique hub for studying and practicing the creation of scale enterprises: the kind that can grow to large scale, thus propagating new ideas widely while spurring economic growth. Each year at Labs we take on select groups of emerging entrepreneurs from across the United States and help them turn their ideas into high-growth companies. The pilot group, our “class” of 2009–’10, was made up of young researchers in the life sciences and physical sciences. They’ve started firms in areas from biomedicine to nanotechnology.

The new class at Labs truly represents a blend of our two fields of interest: a cross-section of entrepreneurs with dynamic ideas for improving American education. Their innovations include new learning tools, new curricula, new delivery methods, and more—all derived from original thinking about how and why people learn.

The current work in both Kauffman Labs and the charter school reflect a deep synergy. We are helping to test, refine, and disseminate fundamentally new ideas in human learning, while at the same time learning more about what it takes to launch and sustain high-impact enterprises in the world’s most crucial “service industry”—education.

That deep synergy, in turn, has required a willingness by us and our partners to think deeply. In each of our fields, a great deal of superficial, quick-fix thinking has been extant. We have seen regions try to jump-start their economies by plowing money into startup incubators or venture capital financing. We’ve also seen no end of efforts to raise the test scores of American students. Fundamental

change and growth have to be brought about more deliberately, out of careful *deliberation* upon exactly what it is that we wish to accomplish.

Even the words we use matter, as Kauffman's Dane Stangler points out in his essay on page 18. Thus we have come to understand and speak of "entrepreneurship" as more than a business practice that creates jobs (although it does). It is the act of going beyond invention or discovery to form an ongoing enterprise that engages others (literally, a "company" of people), and is capable of embodying new ideas so that they have a sustained and expanding life.

Fundamental change and growth have to be brought about more deliberately, out of careful *deliberation* upon exactly what it is that we wish to accomplish.

Similarly, "education" is more than instruction, and it certainly does not mean the processing of young people from raw materials into finished products ready for the marketplace. The word comes from the same Latin root as "educate," which means to bring forth or draw out. Education is bringing forth the energies and interests of people, literally drawing them out of their previous state into a transformative state where they develop new abilities.

On these deep levels, education and entrepreneurship are intimately connected. They lead us to create our own futures, and they lead us to grow, often into areas of activity that we once hadn't imagined we would enter.

### Expansion to New Frontiers

Never in past years did anyone imagine the Kauffman Foundation becoming involved in foreign policy. Yet, our work with entrepreneurs from many countries

has led us to create and champion a new school of thought in foreign policy, called “Expeditionary Economics.” It contends that, when America sends troops and aid to troubled countries, a key strategic aim must be the building of a growth economy driven by indigenous entrepreneurs. The guiding premise, in a nutshell, is that a country can only have peace and prosperity when its people truly own the economy. Many policymakers in places from Washington to Kabul do not yet grasp this premise. So we are networking within the halls of power to seed a core idea: In today’s world, maybe the best way of projecting power is to call forth the power of enterprise in others.

... a country can only have peace and prosperity when its people truly own the economy.

Our work on the domestic front is drawing us into new areas, too. In both our fields, for instance, we work increasingly with less-advantaged populations in urban neighborhoods. The immediate goal is to help people acquire the education and/or start the companies that will, as the cliché says, lift them out of poverty. But, in the course of this work, we have found ourselves confronted with a basic question. What, exactly, is “poverty” today?

In the United States, the nature of poverty has been changing. The term needs to be re-thought and re-defined. Most Americans whom we call poor do not lack the basics of subsistence, such as food and shelter; the society as a whole has grown affluent enough that these are available. Nor is “poverty” merely a relative term meaning that, in an affluent society, one is closer to the low end of the scale than the high end. Formally, our demographers and statisticians define poverty as being below a certain income level. But many of us who fall below that line at a given time either are not actually poor, or won’t be for long.

Yet, we know that poverty is not a phantom concept without meaning, either, as it seems very clear that many Americans are chronically missing what would benefit them. Poverty in the United States may mean something on the order of “not having much money, *and something else.*” Does it mean being poor in skills or credentials? Poor in opportunities or in resources to draw upon? Poor, perhaps, in the ability to find and activate resources?

If we could answer such questions more precisely, it would go a long way toward improving our efforts to draw people out from this sub-optimal state into a transformative state. I do not yet know precisely what the Kauffman Foundation’s role might be in the fundamental quest to define and transcend poverty. All I can do for now is declare the game open, and declare that we intend to be in it.

The same is true of urban redevelopment. Because much of the Foundation’s work is done in cities, we naturally are led into the whole business of re-inventing cities, and we can contribute more directly than we do at present. We already are being led more deeply into health care issues. Our Advancing Innovation work has dealt, to a large degree, with innovation in the health sciences. We know that innovation in this area could be greatly enhanced, in terms of developing new treatments for health conditions that have long defied effective care. You will read, in this Thoughtbook, some of what we and our partners have been thinking about in order to create a better medical future.

### “Creative Destruction” and “Subversive Reconstruction”

As the scope of our activity grows, a limiting factor that has always confronted the Foundation looms larger than ever. We simply can’t do all of this work ourselves. Even with the most astute partnering and leveraging of grant dollars, we cannot

transform American education, transcend poverty, find better ways of treating diseases and supporting high-growth companies, and re-invent cities and foreign policy ... all on our own. Yet, that agenda, and more, is the agenda we have chosen. How then to proceed?

To an extent, we can create new institutions to pilot new ideas, such as the charter school and Kauffman Labs. But our resources are finite; launching some new institutions is vital but far from sufficient. Clearly, we must try to influence the powerful institutions that already exist in our society for dealing with the various issues: not just particular educational institutions, for example, but the entire educational “Institution” with a capital I—the establishment, if you will—and, likewise, the institutions of foreign policy, medicine, and urban and economic development.

It's always more powerful to be a catalyst than a doctor.

Re-shaping those institutions may seem a tall order but, in fact, it is part of the plan, and it is possible. Years ago, the great economist Joseph Schumpeter described the entrepreneurial act as one of “creative destruction.” He noted that it was not only possible but necessary for new entrants to a market to destroy the larger and more powerful entities that had held control, clearing the way for the next round of growth.

Our task, as an entrepreneurial foundation, should be easier. We are not out to destroy any institutions. We only wish to induce them to re-construct themselves along more fruitful lines. Instead of creative destruction, call it “subversive reconstruction.”

And how is subversive reconstruction accomplished? By hard work. In part, by setting examples through pilot or prototype programs that turn out so well that



others are compelled to follow. In part, by networking and educating. In part, by being persuasive in a friendly way, but also by not fearing to step on some toes and point out the obvious when that is called for. And, ultimately, by having the right kinds of ideas to begin with.

We believe that a focus on creating the future is that kind of idea. It's always more powerful to be a catalyst than a doctor. This is not meant to slight physicians, who perform essential and often heroic work, but many institutions in our society operate too much from the "doctor" mindset: trying to diagnose what has gone wrong in the world, then setting out to remedy or redress it. That is a mindset focused on the past. It is of limited efficacy, and the measures tend to be divisive, leading to institutional gridlock.

When we keep our eyes on creating a different future, the playing field is more open, more conducive to eliciting people's excitement and fresh thinking, rather than their vested interests and concerns. That is a unifying approach that leads to growth. What are you creating? In these pages, we hope you will find food for thought.

# Our Guiding Principles

## OUR VISION

A society of economically independent individuals who are engaged citizens, contributing to the improvement of their communities.

## OUR MISSION

To help individuals attain economic independence by advancing educational achievement and entrepreneurial success, consistent with the aspirations of our founder, Ewing Marion Kauffman.

## OUR APPROACH

In pursuit of this mission, we will abide by key principles espoused by our founder:

- Identify opportunities where application of the Foundation's people, ideas, and capital can benefit society in significant and measurable ways.
- Develop innovative, research-based programs leading to practical, sustainable solutions that are widely accepted and implemented.
- Treat the Kansas City region as a program incubator where feasible, in which new approaches can be tried and tested before being disseminated nationally.
- Partner with others to leverage our resources and capabilities while avoiding the creation of dependency.

# Leading New Frontiers of Growth





## Thinking Out Loud

### “New Frontiers” Exemplify How Our Words and Ideas are Linked

DANE STANGLER

Research Manager, Ewing Marion Kauffman Foundation

A word, said Oliver Wendell Holmes, Jr., is not a fixed and unalterable object—it is the very “skin of a living thought” and, as such, bears an intimate relationship with the thoughts and ideas it is meant to express. Private foundations always have been concerned with developing ideas as much as giving money away; the latter, in fact, cannot adequately be accomplished without the former.

Unfortunately, philanthropic ideas have not always been accompanied by careful attention to the words that convey them. This has served as the basis for entertaining critiques like those by Tony Proscio, which poke fun at foundations for overreliance on words such as “initiative” and “best practices.” More seriously, however, if little attention is paid to the words-ideas nexus—or if it is neglected altogether—the vocabulary one uses can threaten careful thought. At that point, words become not the skin but the enemy of living thought.

No individual or organization (including for-profit businesses) is immune from falling into such a loose relationship between words and ideas. The Kauffman Foundation takes great care in considering what language to use in expressing certain ideas, as well as in trying to circumscribe the way in which some things

are discussed, including philanthropy. We know that we must always be mindful that the words we choose are simultaneously shaping the ideas we are developing. To that point, the “new frontiers” explored in this section exemplify the careful relationship between words and ideas we attempt to cultivate. We don’t promise that we always will succeed, but the process of paying attention to vocabulary is valuable in itself.

You will see this play out in the pieces that follow, which present a set of new ideas we are pursuing under the rubric of “Expeditionary Economics.” This contains two examples of being

mindful of words. The first is the name, Expeditionary Economics: Immediately, it conveys a notion that is different from both conventional economics as well as the economic programs practiced by the United States military and civilian

... the “new frontiers” explored in this section exemplify the careful relationship between words and ideas we attempt to cultivate.

communities in developing countries. Economists do not often see their ideas applied in such an intensely practical manner, let alone in an “expeditionary” context. Likewise, as a signal to on-the-ground practitioners, Expeditionary Economics highlights that there are certain aspects of economic life that cannot be neglected even in military and civilian expeditions. This neglect, sadly, often has characterized international development efforts around the world.

Second, the substance of Expeditionary Economics places heavy emphasis on the idea of economic *growth* versus economic *development*. Long ago in the economic literature, there was a semantic hijacking whereupon “development” morphed from its original meaning of dynamic and messy entrepreneur-led activity (renowned economist Joseph Schumpeter’s first groundbreaking book was *The Theory of Economic Development*), and instead became associated almost

exclusively with foreign aid. Consequently, Expeditionary Economics stresses the importance of economic growth in developing and post-conflict countries—growth that comes about through the messy process of firm formation.

You also will read an essay in this section that reports on the state of Michigan's determination to find new ways to create jobs and growth to overcome its economic devastation. Michigan's extraordinary efforts give new life to the famous saying, "Nature abhors a vacuum." With virtually every fabric of the state affected by the auto industry meltdown, the need for innovation in Michigan is pervasive—and people and organizations of all stripes are responding.

The final item in this section perhaps best exemplifies the tight relationship between words and ideas—and what happens when that relationship becomes too loose or when words come to dominate ideas. For many years in the world of philanthropy, there has been a steady drift in the application of the word "public." Philanthropic foundations are private organizations that nonetheless operate in pursuit of the public good. This distinction, together with foundations' tax-exempt status, has steadily become conflated into a claim that private foundations are public institutions. This last essay contends that the original public-private distinction matters enormously, and that the erasure of that distinction constitutes a distortion of philanthropy and a threat to its vitality.

Because the confusion of words and ideas often can have deleterious consequences, and because a disciplined link between them can be so effective, the Kauffman Foundation considers the appropriate vocabulary related to our work nearly as important as the work itself.



# Expeditionary Economics

## Economic Growth, Security, and Stability in Conflict and Disaster Areas

An Interview with:

CARL J. SCHRAMM, Ph.D.

President and Chief Executive Officer, Ewing Marion Kauffman Foundation

ROBERT E. LITAN, Ph.D.

Vice President, Research and Policy, Ewing Marion Kauffman Foundation

DANE STANGLER

Research Manager, Ewing Marion Kauffman Foundation

*Expeditionary Economics is an emerging area of economic inquiry focused on rebuilding economies in post-conflict nations, including Iraq and Afghanistan.*

*The thesis that undergirds Expeditionary Economics is that the most effective way to quickly establish a trajectory toward economic growth in areas in conflict is to focus on helping local citizens form companies that can experience rapid growth in revenue and employment. Given the U.S. military's burden of leaving countries such as Iraq and Afghanistan in a stable economic state, it is critical that a strategy is developed for achieving post-conflict growth. A central issue surrounding Expeditionary Economics is whether the military and civilian agencies can invent the requisite expertise itself to do this, rather than outsourcing the task to private-sector contractors or other parts of the U.S. government.*

*The Kauffman Foundation has consulted with military and civilian leaders from a variety of institutions and is writing an Expeditionary Economics Field Manual. The Foundation's principal researchers working on Expeditionary Economics,*

*Carl Schramm, Robert Litan, and Dane Stangler, answer questions about how the concept has evolved and why it is a solution to post-conflict challenges.*

What prompted you to think about economic growth in conflict and disaster zones?

**Schramm:** Expeditionary Economics really germinated out of some thinking that I had done following my interactions with members of the military and others in the national security community. In 2009, I was invited to participate in a roundtable discussion with the staff of the Joint Chiefs of Staff (JCS) about the impact the Great Recession would have on geopolitics—on how the world might look on the back end of the recession. The focal point of this question was, of course, China, but I was astonished at the narrow confines within which the discussion took place. I tried to push the discussion outward by asking a few simple questions that related to economic growth and its historical impact both on the incidences of conflict worldwide and in nations such as Afghanistan and Iraq. Afterward, members of the JCS asked if I might elaborate on my thoughts. I ended up writing a thirty-page paper on economic growth and the military's often-reluctant role in promoting it.

What was the process for formulating the Expeditionary Economics doctrine?

**Litan:** It all started to fall into place as Carl was working on that first long paper. As he engaged us in discussions and consulted with other people familiar with these issues, we realized that this question of economic growth in post-conflict regions was either a completely underdeveloped field of study or had been almost totally neglected. There is extensive literature on economic development outside the military context, but it is



in a state of intellectual turmoil, while little attention, at best, has been paid by researchers to the specific policies that are necessary for encouraging sustained growth after conflicts.

**Schramm:** Right. Expeditionary Economics began to take on a life of its own as an emerging area of inquiry partly, as Bob notes, because it is filling a void. My paper was circulated in national security circles, and this led to

some important developments. One was that I subsequently published an essay in *Foreign Affairs* that defined Expeditionary Economics; the second was that we started to get more inquiries from people, particularly in the military, about how we might help them explore new ways of thinking about economic growth in conflict and disaster zones. The third was a conference that the Kauffman Foundation hosted that involved dozens of the most important military and civilian thinkers and practitioners in the field to help us build out Expeditionary Economics and chart its future course. This was a catalyzing event.

... we realized that this question of economic growth in post-conflict regions was either a completely underdeveloped field of thought or had been almost totally neglected.

What role did the military play in developing Expeditionary Economics? Who else was closely involved?

**Stangler:** For better or worse, the U.S. military has been increasingly tasked with economic development and reconstruction in conflicts and post-conflict situations. The civilian side—through USAID and the State Department, mostly—is still involved, but budgetary constraints and security concerns prevent civilians from being as “expeditionary” as the

military. This also reflects a de facto state of affairs in which post-conflict planning on the economic front has been relegated to the backseat, so the military finds itself, by default, responsible for an economy in an area in which it has just concluded combat operations or is still engaged in combat. So there is a palpable sense in the military that it needs to think better and harder about economic growth.

**Schramm:** The Command and General Staff College (CGSC) at Fort Leavenworth, Kansas, which is just thirty minutes from the Foundation, expressed strong interest and support in developing Expeditionary Economics with us early on, and, as a result, Bob, Dane, and I taught an elective course at Fort Leavenworth in the spring of 2010. The CGSC Foundation also has been enormously helpful, and we've met with leaders from the Army's 10th Mountain Division at Fort Drum in New York, and have had ongoing contact with the Pentagon.

What are the challenges with how the military currently handles economic development?

**Litan:** Well, the primary problem, as already mentioned, is that responsibility for economic development during and immediately after conflict often defaults to the military because the civilian side doesn't have the capacity—money, boots on the ground, or, frankly, intellectual thought leadership. Still, asking the military to help promote growth takes our armed forces out of their “comfort zones” by tasking them do things they are not well trained to do. Contrast this with something like emergency response, either domestic or abroad. In those cases, we rely heavily on the logistical capabilities of the military, where they have expertise and experience.

**Schramm:** But, when the military does engage in economic development following conflict, it finds little theory or practice at hand on which it can draw. The record of international development over the past fifty years, as practiced by the United States and other developed countries, whether in post-conflict areas or not, has not been overwhelmingly successful.

Why, though, should the military take the lead in spurring economic growth in these scenarios rather than the State Department, USAID, or another agency?

**Stangler:** It's important here to emphasize what we are not saying—we are not advocating for the elimination of the State Department or USAID, or for their complete displacement by the military. We have approached this situation as it currently stands, which is that the military has frequently, and increasingly, been given

the lead role in reconstructing (or constructing) post-conflict economies. In recognition of that, we should develop a new and stronger doctrine of economic development that will better inform, prepare, and guide the

military's efforts. Ideally, Expeditionary Economics will bring in the State Department and USAID and make them stronger, but we think it really prompts a complete rethinking of the way the United States and other countries approach international development overall—both the military and civilian sides.

... we should develop a new and stronger doctrine of economic development that will better inform, prepare, and guide the military's efforts.

What would Expeditionary Economics, successfully applied, mean to the military mission and to the larger U.S. goals?

**Litan:** We're not under any illusions that the United States or any other country can come in and, whether with military or civilian resources or both, completely transform an entire country. We've seen in recent years how difficult that is. But there are clearly some steps the military can take to help set a post-conflict country or region on a new and growing economic trajectory, and, in doing so, really make their stability and security mission easier, more likely to succeed, and more enduring.

**Schramm:** Ultimately, this is all about international security. There is a dawning realization that economic growth is critical to the stability and national security of fragile regions, the world, and the United States. That may sound completely obvious, but it has not been the guiding principle of international development over the past five decades. In part, this reflects the fact that the present model of foreign aid grew up during the Cold War and, as such, was used as a weapon in that struggle. Since the Cold War ended, no intellectual model has replaced that. We want Expeditionary Economics to prove to the military that it can and must play a major role in economic development in these situations, that this function will have an important impact on their other operations there, and that a "messy capitalism" strategy that prioritizes job diversity, local entrepreneurship, and firm formation will be the most effective as the economic leg of the stability and security stool.



## The Economic Framework for a More Prosperous and Safer World

JEFFREY D. PETERSON

Colonel, United States Military Academy; Professor of Economics, West Point Military Academy

To most people, the word “entrepreneur” probably conjures images of someone tinkering in the garage or pitching a business plan to potential investors. With luck, the venture takes off and before long the entrepreneur is hiring more workers and looking for new space to house a growing enterprise. But this scenario captures just a slice of entrepreneurial activity, and it leaves out some of the most entrepreneurial individuals that America produces: our soldiers—men and women whose success or failure in high-risk environments often depends on their ability to create and implement new ideas while, quite literally, under fire.

At first blush, the military as an incubator of entrepreneurs may not seem to parse. After all, one might ask, isn’t the military about the chain of command and following orders? Rather than individual action, don’t military units focus on group missions and achievements by team? Where in this ecosystem is the space for the entrepreneur?

In reality, the leap is not so great at all. As Kauffman Foundation President Carl Schramm has observed, entrepreneurial capitalism is messy and chaotic, and so is warfare. Success in both environments goes to those who can adapt quickly to changing circumstances that are not in the plan.

## A Tool for Establishing Security

To translate that 30,000-foot view to the operational level, we can turn our eyes toward Iraq, where U.S. military officers learned that economics is a tool for establishing security. That's the essence of Expeditionary Economics, a concept developed at the Kauffman Foundation for empowering the military to help jump-start economies torn by conflict or natural disaster.

A working economy promotes stability by giving people something positive to work toward, and that's a critical goal for any commander.

Expeditionary Economics begins with the premise that, in both war and peace, people naturally will strive to put food on the table and a roof over their heads. In most societies, fulfilling these basic needs requires a functioning economy. A working economy promotes stability by giving people something positive to work toward, and that's a critical goal for any commander. Of course, warfare often destroys an economy's ability to function. Thus war creates a challenging military paradox—first we disrupt an economy and, then, to re-establish stability, we must rebuild it. As it happens, security and economic activity are mutually reinforcing, and effective use of Expeditionary Economics advances both goals.

## An Approach Based on Building

Making Expeditionary Economics part of our military doctrine can help us achieve the broader strategic goals of missions that increasingly are likely to depend on the trust and support of local populations. Drawing on the entrepreneurial talents of the local population and American soldiers alike can be a powerful weapon that gives civilian development teams a foundation to build

on. As an approach based on building, not destroying, Expeditionary Economics advances stability by giving the local population hope for the future. It also shows them what is best about America.

For this to succeed on a consistent basis, the military must operationalize the concept so that it can be implemented by commanders who do not have economics degrees. That means providing commanders with some criteria for making quick investment decisions on the ground, without sending it up the chain of command. When you have a local citizen in front of you, asking when the lights will be back on, you need to act with urgency and give him a reason to support us instead of an insurgency. That's why we are working at West Point to design curriculum to train officers who are not economists to make economic decisions. We have to give them the basic knowledge they need to ask the right questions, think about the issues the right way, and make decisions on the spot.

### Entrepreneurial Spirit: One of America's Core Strengths

In some ways, what we really must do is nurture officers' own entrepreneurial spirit. Empowering officers to take an entrepreneurial approach is critical because no curriculum at West Point or field manual is going to give them the single right answer for economic challenges. There's no relevant decision matrix or checklist because every country, every neighborhood, every situation comes with its own set of facts. Successful Expeditionary Economics depends on training officers to apply economic principles with a smart and entrepreneurial spirit while also taking account of local circumstances.

Some suggest economic development isn't the military's job. Certainly, long-term economic development is properly the realm of civilian experts with specific

training and experience for the task. But, at the start of a conflict, the soldier is there and the civilian isn't. Before the civilians can move in, the military has to achieve a reasonable degree of security and stability. Expeditionary Economics offers a framework for that task.

Like it or not, American soldiers increasingly find themselves with non-traditional missions that require non-traditional tools. In today's world, every soldier is a type of ambassador for the United States. When soldiers help an entrepreneurial spirit take root in hostile environments, they are using one of America's core strengths to help build stable, self-sustaining societies that can contribute to a more prosperous and safer world.





## Nature Abhors an Entrepreneurship Vacuum

ROBERT BUDERL

Founder and Editor in Chief, Xconomy

Maybe it's a line they hand out to every Michigander, because I have heard it several times in various configurations. But it's heartfelt. It's a message to people around the country complaining about current economic conditions. The gist goes something like this: "You think you had it bad? Michigan's recession began years ago—and it was a lot worse than what you're feeling. We're over our grieving and are hard at work, and you should be, too."

Until January 2010, when I began planning a Detroit expansion of our high-tech news network, Xconomy, with support from the Kauffman Foundation, I hadn't been in the Wolverine state since 2005. Now, with Xconomy Detroit successfully launched in April 2010, I've made several trips to southeastern Michigan and talked to scores of people in the state, both in person and on the phone or through e-mail.

The economic pain that has been felt in the state is obvious—and hard for an outsider to comprehend in its depth. It is clearly reflected in the state's psyche. But equally apparent is the determination to plow on and overcome by finding new ways to create jobs and growth. I can't help but think of a corollary to the famous "Nature abhors a vacuum" saying most often attributed to sixteenth-century French monk Francois Rabelais: Nature abhors an entrepreneurship vacuum.

Or, perhaps more accurately—*Nature abhors an innovation vacuum*—because what I believe is unfolding in Michigan encompasses far more than entrepreneurs starting and growing new companies. I think that since virtually every fabric of the state has been affected by the auto recession/meltdown, the need for innovation also is pervasive—and that people and organizations of all stripes are responding. Maybe my theory is naïve. When my company was in the state only about five months, we put out almost 250 stories—all of them laser-focused on innovation. Many of these stories were about entrepreneurs and their startups. But we’ve also written about innovative approaches to venture capital, such as the Renaissance Venture Capital Fund, a fund of funds that only invests in other venture firms that invest in Michigan, and innovative nonprofit organizations, from TechTown to the Michigan Women’s Foundation, which are testing new models designed to spur innovation and entrepreneurship from a nonprofit angle. In fact, the Michigan Women’s Foundation is announcing a new angel fund designed to help women entrepreneurs.

... if I had to bet on the upside of any place in America right now, it would be Detroit—and, by extension, all of Michigan.

Put it all together, and if I had to bet on the upside of any place in America right now, it would be Detroit—and, by extension, all of Michigan. I’m not saying Detroit or Michigan will fly the highest and have the strongest economy in America or somehow beget the new Silicon Valley. I am saying the state has the potential to show the biggest gains on a percentage basis. To put it another way, if Detroit/Michigan were a stock, I would buy a bunch of options on it.

Xconomy began eyeing Michigan a little over a year ago, sensing that some sort of major transformation was in the air. Our goal is to build a series of local news sites covering the business of technology and innovation in key clusters around

the world and weave them into a global network. Until a year ago, Detroit was not in our business plan. There were the obvious major and semi-major clusters: Boston, San Francisco, Seattle, San Diego, Austin, Research Triangle Park, even Pittsburgh or Minneapolis. But no Detroit.

But our view changed, not because of what had happened—but because of what was being attempted. First and foremost (and here I credit our chief correspondent Wade Roush, a native Michigander who was the first to raise the idea with me), we saw an effort to diversify the state's economic base and to thereby make the economy less dependent on the auto sector. There already were a lot of efforts under way on this front. The state's life sciences sector, especially around Ann Arbor and Kalamazoo, featured some world-class research and companies. So did a growing medical device cluster. Our Boston site already had written several stories about Michigan's efforts in cleantech, through our coverage of New England companies, like A123Systems opening a lithium ion battery manufacturing plant in Livonia, or biofuels startup Mascoma planning a facility in Kinross. And that didn't count the home-grown efforts in a slew of cleantech projects, from wind, to biofuels, to batteries for electric vehicles. Cleantech also was benefitting from ongoing strong work in nanotechnology.

Those things were relatively easy to spot from afar. Then, as we investigated further, we learned about a growing Internet gaming community, and what was quite possibly the world's largest computer design community. The designers were hired primarily around the auto industry, but there was work under way to apply their expertise to an array of other arenas, including the design of wind turbine blades and robotics systems. And speaking of robotics: Massachusetts-based iRobot was just opening a Michigan office to tap the state's robotics expertise for defense work, while other efforts were under way to build a new cluster of auto robotics firms. Then we learned about a series of new initiatives and programs to help start, incubate, mentor, and fund companies. TechTown in Detroit and Ann Arbor Spark had the highest

profiles, but we saw other examples, including an impending Detroit chapter of Mobile Monday: The group is a mainstay here in Boston that draws several hundred people to its monthly meetings but was only in the planning stages in Michigan.

And behind such examples sat an even bigger story—that is of the innovation efforts inside the big automakers. How were they planning for the future and trying to get back on track, or, hopefully, ahead of the curve?

## Kauffman Scales Up Programs to Expand Domestic and Global Entrepreneurial Training

In response to the severe economic downturn, the Kauffman Foundation identified a dramatic upswing in demand for new approaches to entrepreneurial training. Beginning in 2008, two Kauffman Foundation programs—Kauffman FastTrac and the Urban Entrepreneur Partnership (UEP)—effectively engaged a wide range of entrepreneurs to help re-start the economy nationwide with key initiatives in hard-hit areas, such as New York City, Detroit, and Southeast Michigan. In conjunction with the Deluxe Corporation Foundation, Kauffman FastTrac provided training to hundreds of emerging entrepreneurs ready to start new businesses. Similarly, the UEP has been consulting with 150 minority-owned auto suppliers in the Detroit area to help them identify new market opportunities and retool into new industries to save their companies and the jobs these companies provided.

The Foundation is now scaling up these two mission-critical programs to empower entrepreneurs across the United States and around the world to run their own companies and, potentially, to create many jobs for others.

### Kauffman FastTrac Expands to Serve More Entrepreneurs

Kauffman FastTrac—the leading provider of curricula

that equips aspiring and existing entrepreneurs with the business skills, insights, tools, resources, and network needed to start and grow successful companies—has operated as a philanthropic program of the Kauffman Foundation for more than sixteen years. Over that time, FastTrac has provided guidance and mentorship to more than 300,000 entrepreneurs.

Kauffman spun off the program in April 2010 as a nonprofit 501(c)(3), with two key goals: become a self-sustaining entity and, in time, garner a global footprint. The organization is leveraging its existing framework, and continues to use the Foundation's insights and content resources to make training available to many more delivery organizations, instructors, and, especially, entrepreneurs.

Kauffman FastTrac made its online debut in 2010 in a partnership with Kaplan University. Using FastTrac's NewVenture<sup>SM</sup> and GrowthVenture<sup>SM</sup> curricula, Kaplan offers graduate certificates in entrepreneurship for students who seek to start and build successful businesses, and for those who want to ensure that all facets of their existing businesses are strategically aligned for growth. Additionally, Kaplan University has

So it was to cover all these stories and a lot more—set inside the bigger, all-encompassing story of Michigan’s attempts at long-term economic revival—that led Xconomy to be on the ground in Michigan. And, because success or failure in this broad-based effort to promote entrepreneurship and innovation holds national and even global import, we wanted to tell these stories not just for a local audience, but for our growing global audience as well.

integrated FastTrac courses into its MBA and Master of Science in Information Technology programs.

Through some 300 affiliated delivery organizations, FastTrac is creating an entrepreneurial ecosystem whereby it can collect information from participants that will provide insights into the challenges entrepreneurs face in establishing and growing their companies. Participants also are a source for surveys and testimonials, allowing FastTrac to quickly track and respond to trends.

Learn more at [www.fasttrac.org](http://www.fasttrac.org).

#### Urban Entrepreneur Partnership Expands Delivery System

In the minority community, startups are common, but few grow to scale. The UEP, established by the Kauffman Foundation in 2005, provides entrepreneurial education in neglected and economically underserved urban areas, empowering individuals to attain economic independence.

UEP has developed a methodology for more effectively teaching entrepreneurs while decreasing the entry cost

for organizations that want to help minority businesses grow. This makes UEP appealing to a for-profit market.

UEP’s experience and research show that training is most effective when the entrepreneur has a one-on-one relationship with a coach. UEP captures this niche by enabling a highly qualified coach to deliver content to the client via real-time video conferencing, and is ramping up to offer this distinct delivery system to more locations.

UEP also intends to expand the reach of the video coaching program beyond minority entrepreneurs. It will market this program to corporations and government agencies looking for assistance in procuring and training an effective supplier base, as well as to universities that have a vested interest in training entrepreneurs but lack the infrastructure to provide coaching themselves. The corporate or educational partner then will make the program available to entrepreneurs and determine the cost to each client. While the video conferencing system will be an initial niche, the quality of UEP’s coaches is the real value.

Learn more at [www.uepkauffman.org](http://www.uepkauffman.org).

In January of 2010, the Kauffman Foundation agreed to help support the launch of Xconomy Detroit. We made trips to get to know the innovation community, hired a correspondent, and formed a network of about twenty top advisors (called Xconomists) before we launched. Through networking events, we bring people together across various disciplines and fields of interest as another way to catalyze innovation. Our hope is to add a different type of spark to this catalyst, both through our role as an independent media company, and by cross-fertilizing our Michigan events and coverage with perspective from around the country.

... we wanted to tell these stories not just for a local audience, but for our growing global audience as well.

We invite outside speakers to Michigan, and Michigan entrepreneurs and innovators to events in our other cities, which include Boston, San Diego, San Francisco, and Seattle.

A brief word on the bigger picture. Michigan's story of innovation transformation is not just important in terms of its direct contribution to economic recovery and competitiveness, say, in the auto industry. There is a bigger, longer-term issue at play here—and that involves how Michigan's efforts might lead to whole new centers of excellence in key areas. To paraphrase Lou Galambos, a professor of economic, business, and political history at Johns Hopkins University, it is the establishment and nourishment of competing centers of excellence that give the United States its long-term edge. A growing number of countries now rival the United States in their level of expertise in given scientific or technological areas, and they are getting increasingly better at commercializing that expertise. No other country can yet rival America in the multiplicity of those efforts, however. Through efforts now under way, and more to come, Detroit and Michigan have the potential to add several new clusters to the American competitiveness arsenal.



# Private Entities, Autonomous Decisions, Charitable Purposes

## Foundation Assets are Not “Public Money”

JOHN TYLER

Vice President and Corporate Secretary, Ewing Marion Kauffman Foundation

Foundations are generally private, autonomous, and independent enterprises. Among other characteristics, they can operate with flexibility and purpose that governments cannot; they can take risks and undertake activities that the market-oriented business sector rightly will not; and they can manifest freedoms inherent in democracy. As such, they have opportunities to contribute uniquely to the fabric of our nation’s social and economic systems.

However, in recent years, this balance has been threatened by a notion that foundation assets are somehow “public money.”

There was a time when referring to foundation assets as “public money” was seen as shorthand for recognizing that those assets had been irrevocably committed to furthering charitable purposes consistent with donor intent and the law. Many still hold this view. But imprecise language has allowed too many to invoke or suggest a public-money rationale to justify demanding that foundations meet quotas for making grants to specific types of organizations or for purposes deemed appropriate by people other than the donors and fiduciaries. Or, to mandate that boards and senior staff meet ratios for their

demographic composition. Or, to force foundations to exert time and incur expense collecting and reporting data and information that are not relevant to ensuring charitable uses of resources.

This, unfortunately, is only a short list of efforts that are dangerous in their own right but are particularly threatening when based on “fallacious reasoning” and a “dangerous disavowal of one of the basic tenets of the American system” (Alan Pifer, Carnegie Corporation, 1968).

Most often, the mischaracterization of foundation assets as “public” is based on the charitable deduction that donors receive and the exemption from various taxes, including income, property, and sales taxes. There are at least four reasons why this rationale fails.

### Law Respects Independent Operation

First, the tax-favored treatment afforded by government is premised generally on the commitment and use of assets to further charitable purposes and not for private benefit. Beyond ensuring accountability to the charitable ends specifically chosen by private parties, applicable statutes

and regulations do not—and should not—encroach on the operations, decision-making, governance choices, or other internal aspects of foundations that receive donations or are tax exempt. The law rightly respects such matters as committed to autonomous discretion.

... even a “public” benefit does not mean that all members of the public or a particular geography or demographic are beneficiaries.



### “Public” Benefit, Not Public Control

Second, as noted above, the tax-favored covenant includes the important prohibition on private benefit. That is sometimes recast as requiring that funds be used for “public” purposes or benefits. However, even a “public” benefit does not mean that all members of the public or a particular geography or demographic are beneficiaries. Nor does a “public” purpose displace decision-making responsibility from the donor and the foundation’s fiduciaries, who have a duty not to abdicate that obligation to some “public” authority. As a private matter, the donor and fiduciaries still decide the purposes to pursue, how to pursue them, how to evaluate effectiveness, and what information to disclose beyond that which must be disclosed by law.

### Tax Benefits Do Not Compromise Autonomy

Third, tax policy allows individuals and businesses to enjoy various deductions, credits, and other forms of tax-favored treatment without a corresponding loss of privacy, autonomy, or independence. A home mortgage deduction does not give government the right to dictate house color. A clean energy R&D tax credit does not give government the right to dictate that a business conduct a specific test in a particular way. There may be other elements of government that might impose restrictions or mandates on such matters, but the basis for doing so is not grounded in tax treatment.

### Government Should Be Consistent

Fourth, even those organizations that contract with or receive grants from government are not subject to the types of restrictions or mandates discussed

above. To the extent that contracting parties compromise independence or privacy, they have made a decision to do so in exchange for the benefits of the

relationship. It does not follow that greater intrusion on foundation autonomy can be justified in the context of general tax benefits and in the absence of a direct decision by government *and* an intentional compromise by that entity.

For these and other reasons, private foundation assets are not “public money”

but, instead, are the responsibility of private, independent entities charged with the stewardship of resources for charitable purposes consistent with donor intent and the law. This status is fundamental to the unique role of foundations in our society. It is essential that this status be preserved and that those who value it—donors, policymakers, grantees, and others—be vigilant in protecting it.

## Learn More

For more in-depth treatment of this issue, see the monograph published by the Philanthropy Roundtable and a subsequent law review article, both co-written by John Tyler and Evelyn Brody, professor, Chicago-Kent College of Law, Illinois Institute of Technology. These are available on the Kauffman Foundation website at [www.kauffman.org/lawreview](http://www.kauffman.org/lawreview).

# Growing Education





## Creating a New Future through Education

MUNRO RICHARDSON, Ph.D.

Vice President, Education, Ewing Marion Kauffman Foundation

It is hard to envision a prosperous future in America without a strong education system that prepares young people for productive and fulfilling lives. Education is the greatest single predictor of individual wealth creation and civic participation. Empirical evidence clearly documents the substantial effect of education on wealth mobility, social networks, financial choices (such as savings and debt), and demographic behavior (such as marriage and fertility). Simply put, education is one of the greatest “enabling technologies” we have to improve human welfare.

Yet, if we look at the education systems across America, it is easy to see that, as a country, we are not fully preparing our young people for productive, economically independent futures. Despite the continuous cycle of “school reform,” student achievement stubbornly has not budged over the past forty years. In 2008, the average twelfth grade math and reading scores on the National Assessment of Educational Progress—coined “The Nation’s Report Card”—were virtually unchanged from scores in the early 1970s. These averages, of course, mask disparities within our educational system. Too many of our K–12 students are being left behind by schools that fall well short of serving their needs. To lay the foundation for a successful economic future, the United States cannot continue to allow the loss of so much talent, potential, and possibility among students who are not receiving a quality education.

Over the past twenty years, a quiet movement in education has begun to demonstrate different kinds of results. This movement now seems to be turning into an evolution in American education. Just as entrepreneurs in business bring innovative and disruptive products to the market, so, too, are the education entrepreneurs of our time. Leaders like Wendy Kopp, founder of Teach For America, are writing a new story of how low-income students can be educated. (Read more about

this inspiring work in an interview with Wendy on page 51.) Charter schools are demonstrating remarkable results in cases where they are focused, coherent, and aligned around a powerful school culture and clear achievement goals.

Just as entrepreneurs in business bring innovative and disruptive products to the market, so, too, are the education entrepreneurs of our time.

Their practices are busting through the argument that we have to solve poverty before we can educate low-income students.

Whereas these “new sector” education approaches used to be small experiments, new support from the federal government indicates that these approaches demonstrate real merit and promise to scale and improve education across the United States.

Imagine if the majority of our students would graduate prepared for college and work, with a sense of purpose and goals for a productive and fulfilling future. We believe students in our home town of Kansas City deserve that kind of school. Thus, after years of funding others to do the hard work of improving educational outcomes, the Kauffman Foundation made the decision to become the first grantmaking foundation in the country to start a rigorous college preparatory charter school. You can read about the philosophy of this school in an interview with the school’s two new leaders on page 46.

## Why Start a Charter School?

In June 2010, the Missouri State Board of Education approved the charter for the Ewing Marion Kauffman School. This public charter school will offer a rigorous college preparatory education to students in grades five through twelve, intended to provide them with the academic and life skills necessary for success in college and life beyond the classroom.

We frequently are asked why the Kauffman Foundation chose to start a charter school. Our reason is because we believe Ewing Kauffman, our founder, would have wanted us to do so. Mr. Kauffman had clear expectations for his foundation, and this investment reflects his deep interest in urban education. His signature program, Project Choice, was a dropout prevention program focused on select high school students in Kansas City's urban core. Project Choice served 1,400 students from 1988 to 2001 in an out-of-school program that helped low-income students stay in high school by providing various kinds of assistance, as well as tuition support for college or trade school as an incentive to graduate from high school.

Based on what was learned from Project Choice, in 2003 the Foundation established Kauffman Scholars, Inc. (KSI), which will serve 2,300 urban students from seventh grade through college in an after-school program designed to enhance academic and life skills. Seeing the successes first of Project Choice and now KSI, we often speculated about the deeper impact we could accomplish if we offered this academic rigor and life skills development during the entire school day. Working with students in KSI helped inform expectations and design of the Kauffman School, which will be a rigorous college preparatory school.

Our approach with this new school follows Mr. Kauffman's own philanthropy during his lifetime, in which he identified an issue and then intensely studied it before making any philanthropic or programmatic investments. We visited some of the highest-achieving urban charter schools in the country. We engaged charter school founders, operators, and researchers to learn the best practices in the nation's foremost charter school models. We

also paid close attention to the pitfalls of the first generation of charter schools.

It is difficult to affect change from the outside. During the past twenty years, the Kauffman Foundation has worked with area schools and districts to support several educational reforms, strategies, and models. While we saw some success, a number of strategies fell short of achieving the whole-scale reforms imagined.

We believe the Kauffman School currently represents the most direct method of intervention to improve urban education in Kansas City. In 1999, the first charter schools in Kansas City opened with great fanfare. Regrettably, Missouri charter schools have not lived up to this promise, despite successes in other districts around the country during the same decade. On average, approximately the same percentages of students in Kansas City achieve proficiency in charter schools as they do in district schools.

Some suggest that the charter school model is yet unproven. Our belief in the charter school model stems from the exceptional schools we have researched and visited. These are not "miracle schools," isolated from the broader education landscape, but rather entire networks of high-performing charter schools. These schools demonstrate a systematic approach to the creation of outstanding outcomes for predominately low-income children.

Finally, we seek to exhibit a new approach for education philanthropy. An article about the charter approval that appeared in *Education Week* suggested that the Kauffman Foundation not only is the largest and most prominent private foundation to start a charter school, but the first grantmaking foundation to do so. Although the ten-year, \$10 million commitment by the Kauffman Foundation's Board of Trustees to start the Kauffman School is a significant investment, this sum is not out of reach for a large number of other philanthropies. If successful, we hope this school will demonstrate another way for donors to invest in education and actively guide the change they hope to see in their communities.

We see great promise in these new developments in education. We continuously research and investigate how the Foundation's limited resources can most effectively advance this work. One area we are particularly interested in is the increased use of data and research to understand what works in education, especially for low-income students. For this reason, Kauffman will be funding a new national dissertation fellows program to encourage more scholars to study these emerging educational efforts. Closer to home, we are supporting the Kansas City Area Education Research Consortium, a collaboration of social science and education researchers from four regional universities for the study and improvement of student achievement across the region.

You can learn more about how we are investing in education in an essay on the following pages, which explains a number of our educational research and policy initiatives now under way that are designed to inform educational practices and policies. You'll also read about our experiences of working with more than 1,500 students in Kauffman Scholars, an after-school program that provides academic life skills training so students are fully prepared to enter and succeed in college.

We also are interested in what is happening in higher education institutions. You'll read a summary of the book, *The Great Brain Race: How Global Universities are Reshaping the World*, by Ben Wildavsky, which looks at trends of higher education institutions in other countries, and the intense international competition for students among universities located around the world.



## Creating a Model Charter School

An Interview with:

LATOYA GOREE

Executive Director, Ewing Marion Kauffman School

HANNAH LOFTHUS

Director, Curriculum and Instruction, Ewing Marion Kauffman School

*In August 2011, the Ewing Marion Kauffman School (the Kauffman School) will open and offer an entirely new type of college preparatory educational opportunity for students living within the boundaries of the Kansas City, Missouri, School District. This tuition-free charter public school will operate with the mission to prepare students to excel academically, graduate from college, and apply their unique talents in the world to create economically independent and personally fulfilling lives.*

*The Kauffman School will enroll one hundred fifth graders in the first year, growing one grade per year to eventually serve 1,000 students in grades five through twelve. Learn more about this new college preparatory charter school in the following interview with the Kauffman School's leaders, Latoya Goree and Hannah Lofthus.*



Describe your personal vision for the Kauffman School and what you hope the school will accomplish for students after one year, and after ten years.

**Goree:** I envision the Kauffman School becoming a model urban college preparatory school, exhibiting effective approaches that improve urban education across the country. In the first year, we need to instill a sense of urgency in students and staff to drive academic growth. With academic growth as the primary driver in the middle school grades, students will become prepared for the school's rigorous college preparatory high school environment in five years' time. Older students moving to high school will model necessary academic and personal qualities for younger students. In ten years, the school will graduate its third class of high school seniors—and they, like the graduates before them and those who follow, will be equipped with the academic and social skills needed to excel in college and beyond.

**Lofthus:** If, after one year, I have students who tell me—through big grins—that this was the hardest year they have ever been through, but that they were pushed and learned more than they ever have, then I will know we have been successful. After ten years, we will see our first graduates succeeding in college and well on their way to productive and fulfilling lives.

What is one significant challenge in achieving this vision, and how might you overcome that challenge?

**Goree:** We must make sure students, their families, and the broader community all believe in the potential of our students to succeed. We can help build that trust by consistently pursuing our mission, achieving our goals, and reporting those results to our school community—including, most importantly, the parents.

**Lofthus:** We expect a lot from our teachers, and it will take a special kind of person to teach at the Kauffman School. To make sure that we have the best and brightest teachers, we need to put in place creative strategies for recruiting, developing, and celebrating the successes of teachers at the Kauffman School.

What strategies will the Kauffman School use to realize the high achievement expected from its students?

**Goree:** We accomplish this by recruiting and retaining the best possible teachers, employing a leadership team committed to success in urban education through high expectations and accountability, and by continually learning from all types of schools that demonstrate strong outcomes for students.

**Lofthus:** When a group of individuals who live and breathe the same mission come together, there is absolutely no limit to what their students can achieve. As a teacher at Leadership Prep Charter School in Bedford-Stuyvesant Brooklyn, I was

lucky enough to be part of a team where teachers tutored after school, made home visits, called parents daily, and took students on Saturday trips. I've been part of and seen examples of schools like this across the country that, day after day, prove it is possible for students of any age, race, or background to excel at extremely high academic and social levels. We are grateful that the Kauffman School is able to benefit from the experiences of these schools.

In ten years, the school will graduate its third class of high school seniors—and they, like the graduates before them and those who follow, will be equipped with the academic and social skills needed to excel in college and beyond.

What are the common hallmarks among successful college preparatory charter public schools that the Kauffman School will employ?

**Goree:** Common hallmarks include an extended school day and school year; a rigorous curriculum focused on student mastery of core subjects; frequent interim assessments gauging student progress toward internal benchmarks; strong teacher support and development programs designed to continually improve the quality and effectiveness of instruction in the classroom; and attention to both the academic and personal development of students.

When a group of individuals who live and breathe the same mission come together, there is absolutely no limit to what their students can achieve.

Describe the kind of teachers the Kauffman School hopes to employ—what characteristics will distinguish them from other educators?

**Lofthus:** The most powerful distinguishing trait of a Kauffman School teacher is his/her commitment to doing whatever it takes to prepare students to excel in college and be leaders in their communities. In our school, you will see a dedicated group of individuals who will continually assess their own effectiveness and ask, “What can I do to better serve my students tomorrow?” Because they will continuously reflect on their own practice, the Kauffman School teachers will welcome feedback from students, colleagues, parents, and administrators.

Additionally, our teachers will be passionate about working toward educational equity. They will operate with the belief that *all* students in the building are *their* students, whether or not they actually teach them. Our

teachers will feel a sense of shared responsibility for any and all problems that occur at our school and jump at the opportunity to collaborate with colleagues to solve them. Any individual visiting a Kauffman School classroom should immediately feel the joy that permeates each lesson. Our teachers will know that their passion for teaching fosters their students' passion for learning.

How will you work to ensure fifth graders entering the school two or more years behind grade level are prepared for rigorous college preparatory work at the high school level by the time they complete eighth grade?

**Lofthus:** First and foremost, we intentionally will use instructional time to provide double blocks of mathematics and English language arts. We believe deeply that all teachers are reading teachers, and because we know that literacy is the key skill needed to unlock meaning in all other content areas, literacy will be taught across all subjects.

We also will devote much of our time and resources to improving teaching. We know that the number one factor inside a school that influences student achievement is a child's teacher. Teachers will spend a great deal of their time looking at student achievement data to know where students need more instruction and assistance. Our small school structure allows us to use this knowledge and provide daily individual attention to students identified by the needs we see in the data.

To read more about the Kauffman School, visit [www.kauffmanschool.org](http://www.kauffmanschool.org).



## Scaling Up Teach For America

An Interview with WENDY KOPP

Founder, Teach For America

*Teach For America (TFA) is a New York-based organization that trains highly motivated individuals (many recent graduates of top-notch universities) and places them as teachers in underperforming school districts throughout the country. Several studies have documented the successes of TFA teachers in Louisiana, North Carolina, and New York City—raising student achievement, often outperforming other new teachers.*

*TFA was founded in 1990 by Wendy Kopp, who graduated from Princeton University the previous year. As TFA's leader, Kopp is widely recognized as one of the nation's leading voices on improving American education. In the following interview, she discusses TFA's growth, what she's learned over the past twenty years, and how entrepreneurship fits with teaching.*

The U.S. Department of Education recently announced that TFA received a five-year, \$50 million “Investing in Innovation” grant. What impact will this have on TFA?

We’re honored that TFA was selected as one of four “scale-up winners” of this competition, which is a great validation of our impact. These funds will support our effort to become a bigger and more effective force for short-term and long-term change.

We currently have 8,200 corps members teaching in thirty-nine regions. By 2015, TFA will field 15,000 corps members and provide 20 percent to 25 percent of the

new teachers across sixty of the highest-need urban and rural communities. Our corps members will help to change the life trajectories of more than 900,000 students annually, and our alumni force will grow exponentially. In five years, we’ll have 45,000 alumni (up from today’s 20,000), and ten years from now we’ll have 80,000—creating a formidable critical mass in communities across the country.

Our corps members  
will help to change the  
life trajectories of more  
than 900,000 students  
annually ...

How is TFA’s growth affecting you, your leadership, and the overall organization?

Our growth has enabled us to deepen our impact and fuel the larger movement to eliminate educational inequity. We’re able to have a much greater impact now, and we’re able to attract more seasoned talent as well as the financial resources to make investments that improve our results. The most fundamental challenge for us has been in developing the people and organizational capacity quickly enough to lead the growth. For me, I’ve had to evolve my role to spend less time on operational matters and more time on strategic questions.

### What does it take to bring TFA into a community?

The first thing we consider is the size and depth of the educational disparity there—by looking at things like high school graduation rates and the number of students who receive free and reduced-price lunch. Entering a new community requires close partnership with the local school system and officials because they have to be willing to hire a crucial mass of corps members to teach a broad range of subjects and grades. We also consider the financial support of the business and philanthropic communities because we need to raise three years of funding before launching a site.

### What have you learned from your TFA teachers over the years?

The most salient lesson of our work is simply this: Where children are born does not need to determine their educational outcomes. Many consider educational inequity to be an intractable problem, but our most successful teachers have shown us that it is possible to solve the problem if we redefine the nature of teaching and of school. TFA teachers put their students on a different educational trajectory when they establish a vision of academic success, invest students and their families in working hard to reach it, and pursue the vision with purpose and relentlessness, reaching beyond traditional expectations to access additional resources in order to meet children's extra needs.

Many consider educational inequity to be an intractable problem, but our most successful teachers have shown us that it is possible to solve the problem if we redefine the nature of teaching and of school.

## How does entrepreneurship fit with teaching?

Children in urban and rural areas face many extra challenges—they aren't surrounded by lots of evidence of the possibility of success in school and in life, and they face all the extra challenges of poverty. If you really think about it, the only way to be a successful teacher in this context is to be entrepreneurial—to envision a reality many think is impossible, to pursue it with passion and relentlessness, to be extraordinarily resourceful.

Entrepreneurship in education also is important if we are going to realize educational excellence and equity, given the magnitude of the problems we are addressing. Our alumni have proven to be important entrepreneurs over the last two decades—as the founders of the KIPP network of high-performing charter schools as well as other school networks, and as leaders of The New Teacher Project. We are working to inspire and support our alumni to pioneer the innovations that will speed up the pace of educational change.

A recent study by researchers at Harvard University found that 61 percent of Teach For America corps members stay in teaching beyond their two-year commitment. Of our overall alumni pool, now 20,000 strong, more than 60 percent are working in education or education reform. Of those who have left the field, more than half have jobs that relate in some way to schools or low-income communities; perhaps they are lawyers working in legal services or doctors working in public health.

## Is there a macro lesson you've learned about improving American education?

I have learned that we don't need to wait to fix poverty to solve the problem of educational inequity. We can provide children with an education that is



transformational—that changes the path predicted by their socioeconomic background—if we enlist them and their families in working to attain academic success, and provide the academic rigor and extra supports

## A Teach For America Case Study: Kansas City, Missouri

In 2008, Teach For America (TFA) responded to a high level of community support coming from local foundations, schools districts, and individuals in the Kansas City area. Anchor funding provided through a \$2.5 million, five-year grant from the Kauffman Foundation and nearly \$1 million from the Hall Family Foundation made it possible for TFA to expand into the Kansas City, Missouri, School District. In the first year, TFA placed fifty TFA-KC corps members in that district and in one charter school. Now in its third year, TFA has grown to 130 teachers who teach in two Kansas City, Missouri, districts and fifteen charter schools. These TFA teachers now reach more than 7,500 students.

While students in low-income schools, on average, make only a half-year's progress per academic school year, this past year nearly 80 percent of TFA-KC corps members achieved more than one full year of academic growth among their students. Additionally, 60 percent made more than a year-and-a-half progress, yielding three times the impact on student achievement. The math department at Alta Vista Charter High School (comprised of TFA corps members) increased math proficiency among students on the state exam from 14 percent to 46 percent in a single year.

Beyond the classroom, some corps members initiated after-school and teacher development programs, and provided tutoring and other extra services to students. For example, Jeff Baum started a competitive soccer team for students in the community around his school, emphasizing

academic and athletic excellence. The program produced a championship team, sent more than half of its graduating seniors to college on scholarship, and expanded to provide tutoring, personal development, and pre-college enrichment to its forty students.

These young teachers, whose backgrounds span numerous academic majors and career interests, have stimulated student success while working toward their master's degrees in education. Because of their commitment, disciplined approach, and local support team, corps members continue to raise the bar of rigor in their classrooms and measure progress in a meaningful way that allows them to continuously improve their own practice. This regional success mirrors the broader impact of TFA nationally.

More than one-half of the initial corps members who completed their two-year TFA-KC commitments elected to remain in education full-time. They, along with the second-year instructors and the sixty corps members who began teaching in Kansas City this fall, are the cornerstone for TFA-KC sustainability. The TFA-KC alumni community continues to grow. TFA alumni from across the country also are electing to move to Kansas City to continue their careers, which include teaching, leading schools, and pursuing legal and engineering professions.

Establishing TFA in Kansas City required broad community support, which has expanded to now benefit from many individual donors through the Sponsor-A-Teacher program.

necessary to help them overcome the challenges they face as a function of poverty. What I have seen is hard evidence that we can ensure all of these children have the opportunity to attain an excellent education if we decide it's a priority. This will require investing the same level of energy and discipline—and pursuing the comprehensive set of strategies—that are required to accomplish ambitious ends in any organization. There is nothing magical or elusive about this solution, but there is nothing easy about it, either—and efforts that oversimplify the issue will fail to advance the cause and, worse, serve as fatal distractions of time and energy.

Studies by Mathematica and the Urban Institute have attested to the strong performance of students in classes taught by Teach For America teachers. How important are these evaluations?

To be a force for change, we need to ensure that our corps members are transformational teachers. This can be life-changing for the students we reach. The experience of teaching successfully is the foundational experience of great leadership and advocacy because great teachers gain personal conviction about what is possible to achieve through education, learn about what accounts for success, and gain the moral authority and credibility to lead others to success. We are very focused on learning what our most successful teachers are doing differently and feeding those lessons into our program for selecting, training, and developing our teachers. Third-party, rigorous studies are crucial for telling us how we're doing in this effort.



## Using Research to Inform and Influence the Quality of Education in a Community

MARGO QUIRICONI

Director, Education, Ewing Marion Kauffman Foundation

Because our nation's future derives from our capacity to effectively educate students, academic achievement increasingly is important for learners from all economic environments. Innovative approaches to education, from elementary school through college and beyond, chart a course for students to succeed, not only academically, but in business and in life.

Since its inception, the Kauffman Foundation has taken myriad leadership roles to help ensure quality educational opportunities for young people. More recently, the Foundation has embarked on educational research projects aimed at addressing issues specific to the Kansas City metropolitan area, our home town.

It is clear that, in our region, we need to know more and ask better questions about the conditions of our schools, the populations we are serving, and whether our students have access to learning from the most qualified people. We also need to develop reliable data to undergird educational decision-making.

## Kansas City Area Education Research Consortium

This initiative, now finishing its first year of organization, involves four area universities—Kansas State University, University of Kansas, University of Missouri-Kansas City, and University of Missouri-Columbia—collaborating to build a research enterprise that will improve student achievement across the region. While consortia in other cities have studied a single school district, this Consortium will study twenty-four school districts and charter schools across two states, making its data a distinct national resource for educational improvement.

The Consortium's objective is to improve education for all students from pre-school through higher education in the Kansas City metropolitan area by building a deep body of knowledge around regional education issues, and to provide area school districts, charter schools, and policymakers with tools for data-driven educational policy research, evaluation, and implementation.

This group already has made significant progress in negotiating the schools' and states' widely varied tests and regulations to build clean, consistently formatted datasets. A survey of fifty-nine Kansas and Missouri school superintendents identified the relative importance of potential topics, and research has begun in the Consortium's four pilot studies on algebra, Kansas City's teacher labor market, transition to higher education, and a value-added teacher evaluation system.

Over time, the Consortium will deliver an ever-growing body of rich data that will help educators and community members understand deeply the complexities of the region's educational system, the policy changes that need to be made, the levers that can facilitate better education, where funding will have the greatest impact, and what personnel emphases will solve our educational challenges.

## Research Projects Focused on Improving Quality

The Kauffman Foundation also has supported several other key research studies designed to focus on particular education issues in the Kansas City region.

**IFF's Putting Performance on the Map Study.** In a study based on data from the 2008–2009 school year, 88 percent of students in Kansas City, Missouri, School District (KCMSD) schools and the charter public schools within the district's boundaries did not attend a school that meets Missouri state standards for academic performance. This 2010 IFF report, *Putting Performance on the Map: Locating Quality Schools in the Kansas City, Missouri, School District*, presents data on enrollment, capacity, location, and performance in KCMSD and charter schools. It speaks to the issue of creating more seats in quality schools to better serve students who attend both district and charter schools, and offers powerful data for school leaders and community members to plan how to create better-quality schools.

**Teacher Quality Study.** As an expanding body of research demonstrates, high-quality teaching is imperative in raising students' academic performance levels. This study, focusing on the Kansas City, Missouri, School District, refines what we know about teacher quality by focusing on the laws, practices, and dynamics that surround how we select and compensate teachers, the nature of the workplace environment, and the dynamics that effect retention of the most-capable teachers. In part, researchers from the National Council on Teacher Quality will compare the local teachers' contracts with contracts in other urban districts and examine state policies.

In addition to the Kauffman Foundation's support, this project engages numerous community partners who have a vested interest in the quality of local education.

The research will inform a report that defines the conditions required for the best teachers to be placed in front of students, and identifies the policies and practices that ensure those teachers' support and retention.

**Missouri Charter Schools Study.** Policy environment plays a dramatic role in determining whether chartering can succeed at scale. The study on Missouri charter schools will review existing data to identify growth patterns and factors that have affected poor-performing schools. Researchers from the National Alliance for Public Charter Schools will interview policymakers, school leaders, and other educators and researchers to better understand the policies and related practices that affect Missouri charter schools' efficacy. Study results will provide recommendations for improving Missouri's charter-school policy climate, with the aim of expanding the number and quality of the state's charter schools and maximizing their positive impact on education reform statewide.

Policy environment plays a dramatic role in determining whether chartering can succeed at scale.

In both the National Council on Teacher Quality and National Alliance for Public Charter Schools projects, researchers will use practices in other states as benchmarks, drawing from successful models across the United States to compare how "best-in-class" states organize their policy environments, and to identify practices that should be implemented in Missouri.

### Other Education Research

The Kauffman Foundation also will conduct rigorous evaluations of our own charter school, which launches in 2011. And, because we recognize the importance of having well-prepared researchers to probe the challenges facing

education, we are developing a program to support dissertations on topics such as charter school research, school turnaround models, teacher effectiveness, and school governance.

As we seek to understand the factors that affect education in our region, we will support other studies that inform and identify good policy that derives from good research and leads to good practice. Through diligent research and strategic partnerships, we hope to continue to aggressively influence the quality of education in our region and beyond.



## The Ride of Their Lives

STEPHEN GREEN, Ed.D.

President and Chief Executive Officer, Kauffman Scholars, Inc.

Two students from the same environment, same neighborhood, sit together in a classroom. They have the same potential to do great things. One capitalizes. One doesn't. One community thrives. Another spirals downward.

You have to ask, what forces have to come together to make the most of that potential?

College access programs require a long-term commitment, significant resources, and some very passionate individuals who are called to this work. But the dividend on that investment is going to be huge. When you focus on the things that matter, you begin to create a movement strong enough to turn long odds in your favor.

That's what we are trying to do with the Kauffman Scholars program, which was launched in 2003 with a \$70 million grant over nineteen years from the Kauffman Foundation (the Foundation's largest and longest-term commitment).

This historic investment wasn't about being on the edge of reform, but creating that edge. Formed as an independent nonprofit organization, Kauffman Scholars, Inc., exists to explore new and innovative ways to reach and teach students. We expect to make a dramatic impact in the number of urban students from low-income families in the Kansas City, Missouri, and Kansas City, Kansas, school districts who go on to become college graduates.



Most of our scholars, who start the program in seventh grade, are from low-income households, most are minorities, and nearly all of them will be the first person in their families to attend college. Without an enriched out-of-school curriculum and meaningful social support, the odds of them going to college are considerably against them.

We want to flip those odds.

This is a landmark time for the program. In May 2010, 125 members of the first class of Kauffman Scholars completed their first year of college. This is 95 percent of the 131 students who completed twelfth grade in the program. They have come a long way since the first afternoon they gathered at their middle schools and boarded the bus that would take them on the ride of their lives. The buses brought them to an environment where everyone and everything was about instilling the habits of college-bound students and preparing them for the road ahead.

The buses did more than transport the scholars to another physical space. We brought them to a new and different intellectual environment—a place where college is the destination for everyone and falling short of that goal is not an option. From the moment scholars step foot into the After-School Academic Enrichment Academy, the culture reflects their affirmation:

Q. Where are you going?

A. To college!

Q. Why are you here?

A. To get ready!

Q. And what about failure?

A. Not an option!

## Enriched by Our Lineage

The journey we're on with our scholars and their families follows in the footsteps of Project Choice, the Foundation's dropout prevention program that ran from 1988 to 2001. Ewing Kauffman established Project Choice, acting on his belief that education

was the key to success in life, a one-way ticket out of poverty. Mr. Kauffman believed his foundation could make the difference in helping to bridge the gaps that block so many urban youth on their path to college, and, he said, "If you give these students hope for the future, if they know somebody cares for them, you'll be surprised at what they can achieve."

Project Choice revealed the challenges faced by urban students as they entered college, and helped the Kauffman

Foundation grasp the measure of commitment it would take to give students the opportunity to choose a new destiny. If you spend time in Kansas City, you will come across the "Kauffman Kids" of Project Choice. They are the living legacy of Ewing Kauffman's dream. They have good jobs and kids of their own now. In a single generation, the expectations for their families have changed because, when that first student goes to college, it sets the pathway for others to follow.

In the spirit of the Kauffman Foundation's entrepreneurial perspective on the world, we are forging new ground and learning along the way. We need to better understand the psycho-social adjustment to the thresholds from middle school to high school, high school to college, college to the work force. Mindful of the fragile circumstances our students are dealing with, we know those bridges have

### Factors for Success

The Kauffman Scholars program centers on three factors critical in helping students move through high school and on to graduation:

- Academic enrichment offered outside the walls of the classroom includes tutoring, intensive summer programs, a series of academic enrichment academies, and sessions that focus on study and life skills.
- A life coaching component that is the backbone of our program.
- A very active parent-engagement program that wraps the family in support of their scholar.

to be navigated ever so carefully. You cross one obstacle and the next appears. The odds stack up against them over and over. The risk is pretty high. We want to make sure that, when our scholars stumble and fall, it will not be the end of the journey.

We also are learning more and more about the importance of building relationships with our scholars' families. It takes deep, intensive interaction to change the trajectory of our scholars' lives. It's not something you can do at

## Core Ingredients of Successful College Prep Programs

Susan P. Choy's paper, "Access and Persistence: Ten Years of Longitudinal Research on Students," provides the core ingredients of the Kauffman Scholars program. The findings of this research indicate that students who receive a rigorous high school education are much more likely to attend and graduate from a four-year college.

- Moderate- to high-risk students whose parents reported frequently discussing school-related matters were *twice as likely* to enroll in four-year colleges.
- When most or all of their high school friends planned to enroll in a four-year college, these students were *four times as likely* to enroll in college as those who had no friends planning to attend college.
- Students who received help filling out college applications or preparing for entrance exams were *more likely* to enroll than those who did not.
- Students who participated in high school outreach programs almost doubled their odds of enrolling in a four-year college.

This tells us that low-income students routinely are less prepared for college than students of families with higher incomes are, and that these students need an array of social support to prepare them to succeed in college.

Also, because measuring impact in terms of quantitative analysis has been the missing piece in many college access programs, we enlisted the objective lens of an external evaluator. We selected the RAND Corporation to conduct a seven-year longitudinal study of Kauffman Scholars. The RAND study not only will evaluate the long-term impact of the program, but also will provide preliminary findings to help us make modifications as we go. With the cooperation of our urban school districts, we opened the door for RAND to look at a sample of students who are not Kauffman Scholars and to compare the scholars' and non-scholars' grades, attendance, behavior, and standardized, normalized, and norm-reference test scores.

The findings of the RAND research presented in September 2009 at the National College Access Network Conference reveal that the students we're working with are making tremendous strides. They're doing well in school, and they are on a course to go to college. RAND finds that the depth and duration of the Kauffman Scholars approach are unique among the nation's college access programs, and that, with a sustained effort, it doesn't take long to see some positive signs.

We are having an impact. These kids need us. We can't afford to give up on them.

a distance. The behavioral changes must extend beyond what happens in the academy and reach into the family. The success of our parent engagement and our life skills engagement rest largely on the empathy and trust we have with our families. We have a covenant with our families that we take very seriously.

Along with embracing our proud lineage and the lessons of Project Choice, the Kauffman Scholars program was designed based on our extensive study of research and best practices on how to prepare low-income students and assist them through college graduation. We have incorporated measurement and evaluation components based on empirical data to serve as our anchors and to tell us if what we're doing is making a difference.

## Perspectives from Kauffman Scholars Students

Members of the first class of Kauffman Scholars started college in the fall of 2009. We asked a few of them to share their thoughts about the program and the path they've taken to follow their big dreams.

**Ronald Ross, Kansas State University**

"The moment of truth for me was when I found out that some of my closest friends were being released from the Kauffman Scholars program because of the choices they were making. Seeing them lose this opportunity and jeopardize their future was a wake-up call for me.

"Kauffman Scholars helped me find the path I could take to make something of myself. For me, it was the opportunity and the big push I needed to succeed in life. It's the best thing that ever happened to me."

**Cristina Ortiz, University of Missouri - Kansas City**

"I always knew that I wanted to go to college and get an education. I wanted to stand out from other students, and I wanted to challenge myself. Financially, my parents were barely making ends meet, so until

Kauffman Scholars came along I didn't know where I was going to get the money to go to college.

"For my family, college was something we saw in the movies or on television. Now, everyone in my family is getting a sense of what college is about. My brothers see me doing homework when I come home. College is not just a part of my life, but part of my family's life, as well. We all think big now. For us, anything is possible."

**Christopher Ramirez, University of Kansas**

"The college visits and the summer residential programs offered by Kauffman Scholars made the transition to the university easy. I am very thankful to the Kauffman Scholars program for the opportunity to attend school without the heavy burden of financial debt.

"With Kauffman Scholars, I have a whole team behind me ready to give me guidance. I am inspired to do better. I will be receiving a degree not only for myself, but also to pave the way for the other Kauffman Scholars to come."



## Understanding the Great Brain Race in Higher Education

BEN WILDAVSKY

Senior Fellow, Research and Policy, Ewing Marion Kauffman Foundation

For decades, research universities in the United States have been universally acknowledged as the world's leaders in science and engineering, unsurpassed since World War II in the sheer volume and excellence of the scholarship and innovation they generate. But there are growing signs that the rest of the world is gaining ground fast—building new universities, improving existing ones, competing hard for the best students, and recruiting U.S.-trained Ph.D.s to return home to work in university and industry labs. Is the international scholarly pecking order about to be overturned?

There is no question that the academic enterprise has become increasingly global, particularly in the sciences. Nearly three million students now study outside their home countries—a 57 percent increase in the last decade. Foreign students now dominate many U.S. doctoral programs, accounting for 64 percent of Ph.D.s in computer science, for example. Tsinghua and Peking universities together recently surpassed Berkeley as the top sources of students who go on to earn American Ph.D.s.

Faculty members are on the move, too. Half of the world's top physicists no longer work in their native countries. And major institutions such as New York

University and the University of Nottingham are creating branch campuses in the Middle East and Asia. There are now 162 satellite campuses worldwide, an increase of 43 percent in just the past three years.

At the same time, growing numbers of traditional source countries for students, from South Korea to Saudi Arabia, are trying to improve both the quantity and quality of their own degrees, engaging in a fierce—and expensive—race to recruit students and create world-class research universities of their own.

All this competition has led to considerable hand-wringing in the West. During a 2008 campaign stop, for instance, then-candidate Barack Obama spoke in alarmed tones about the threat that such academic competition poses to U.S. competitiveness. “If we want to keep on building the cars of the future here in America,” he declared, “we can’t afford to see the number of Ph.D.s in engineering climbing in China, South Korea, and Japan even as it’s dropped here in America.”

The globalization of higher education should be embraced, not feared—including in the United States.

Nor are such concerns limited to the United States. In some countries, worries about educational competition and brain drains have led to outright academic protectionism. India and China are notorious for the legal and bureaucratic obstacles they place in front of Western universities that want to set up satellite campuses catering to local students.

And sometimes students who want to leave face barriers. Several years ago, the president of one of the prestigious Indian Institutes of Technology effectively banned undergraduates from accepting academic or business internships overseas.

There are other impediments to global mobility, too, not always explicitly protectionist, but all having the effect of limiting access to universities around the world. In the years following the terrorist attacks of September 11, 2001, for example, legitimate security concerns led to enormous student-visa delays and bureaucratic hassles for foreigners aspiring to study in the United States. Student numbers have since rebounded, despite intermittent problems, but there remain severe limits on work and residency visas, which should serve as an enticement for the best and brightest to study in the United States.

Perhaps some of the anxiety over the new global academic enterprise is understandable, particularly in a period of massive economic uncertainty. But educational protectionism is as big a mistake as trade protectionism is. The globalization of higher education should be embraced, not feared—including in the United States. There is every reason to believe that the worldwide competition for human talent, the race to produce innovative research, the push to extend university campuses to multiple countries, and the rush to train talented graduates who can strengthen increasingly knowledge-based economies will be good for the United States, as well.

Above all, this is because the expansion of knowledge is not a zero-sum game. More Ph.D. production and burgeoning research in China, for instance, doesn't take away from America's store of learning; on the contrary, it enhances what we know and can accomplish. Because knowledge is a public good, intellectual gains by one country often benefit others. Chinese research may well provide the building blocks for innovation by U.S. entrepreneurs—or those from other countries.

Indeed, the economic benefits of a global academic culture are significant. Just as free trade provides the lowest-cost goods and services, benefiting both

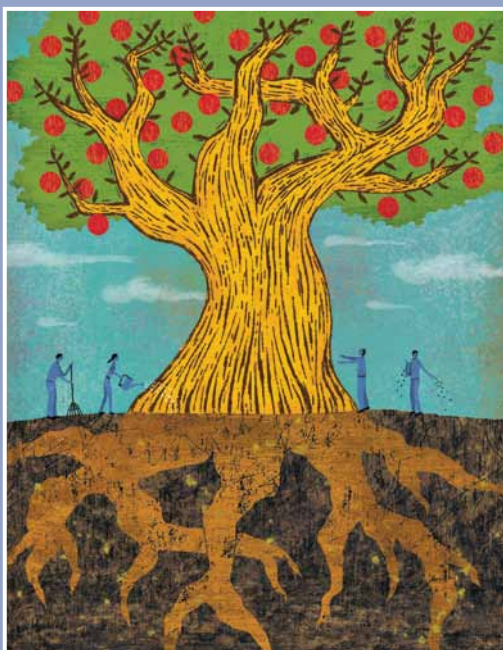
consumers and the most efficient producers, global academic competition is making free movement of people and ideas, on the basis of merit, more and more the norm, with enormously positive consequences for individuals, universities, and countries. Today's swirling patterns of mobility and knowledge transmission constitute a new kind of free trade: free trade in minds.

The United States should respond to the globalization of higher education not with angst but with a sense of possibility. Neither a gradual erosion in the U.S. market share of students, nor the emergence of ambitious new competitors in Asia, Europe, and the Middle East means that American universities are on an inevitable path to decline.

By resisting protectionist barriers at home and abroad, by continuing to recruit and welcome the world's best students, by sending more students overseas, by fostering cross-national research collaboration, and by strengthening its own research universities, the United States can sustain its well-established academic excellence while continuing to expand the sum total of global knowledge and prosperity.



# Building a Foundation for Growth





# Entrepreneurship Research

## Much Progress, More to Be Done

ROBERT E. LITAN, Ph.D.

Vice President, Research and Policy, Ewing Marion Kauffman Foundation

As New York University's distinguished economist and Kauffman advisor William Baumol has observed, entrepreneurs seem to be everywhere except in economics textbooks. We know that entrepreneurs are disproportionately responsible for breakthrough or “disruptive” innovations—the automobile, the airplane, computers and software, Internet search, and air conditioning being just a few of the more prominent examples. We also know from research carried out by researchers in academia and at Kauffman that startups have accounted for virtually all net new jobs created since the late 1970s. But, until the past few years, mainstream economic theory had yet to fully incorporate entrepreneurs generally—and specifically the formation and growth of “scale” firms—into formal or even informal economic models.

This is beginning to change, with research support and intellectual input from the Foundation. In 2007, I was fortunate to team with our president, Carl Schramm, and William Baumol, to co-author *Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity*, which, among other things, identified the central role of new firm formation in driving growth in all economies around the world. In 2009, Professor Daniel Spulber of Northwestern University published a path-breaking book, *The Theory of the Firm*, which formally identifies firms, as distinct from the individuals who found them, as

key agents in driving economic growth, and then models firm formation and growth. William Baumol recently followed his earlier seminal book in the area, *The Free Market Innovation Machine*, with his new *Microtheory of Innovative Entrepreneurship*, which highlights the central role of “innovative entrepreneurs” in particular—those who develop new products, services, or modes of production or service delivery—as primary drivers of economic development.

Baumol’s essay in the pages that follow documents how far economists have come in both understanding the importance of entrepreneurs and in beginning to identify policies that can effectively advance entrepreneurship.

Ultimately, a main purpose of research is to inform policymakers and improve policy outcomes—in our case, to better facilitate innovation and growth ...

Economic understanding advances not only through new theory, but through careful empirical analysis. Empirical studies cannot be carried out without data, and it is on this front that the Foundation’s research support has been especially important, as outlined in more detail in the essay by E.J. Reedy on page 86.

Ultimately, a main purpose of research is to inform policymakers and improve policy outcomes—in our case, to better facilitate innovation and growth, for it is only through sustained, faster growth that Americans will realize more improvements in their standard of living. Toward this end, the Foundation’s research program supports numerous policy-relevant studies by scholars in academia or research organizations, as well as by Foundation associates.

One particularly noteworthy policy-relevant initiative is the Foundation’s multi-year effort to stimulate a new wave of legal scholarship. Our Law, Innovation, and Growth initiative, in particular, is designed to identify improvements in “the

law”—statutes, regulations, and judicial doctrines—that can provide a better legal and institutional environment to foster growth. In 2009–’10, we assembled a distinguished task force of the nation’s leading legal scholars and social scientists to identify specific legal reforms. Their findings are spelled out in a comprehensive volume titled *Rules for Growth* (see page 92 for an overview).

Research organizations and the foundations supporting them constantly wrestle with the question of “impact.” How is it best measured and achieved? There are no perfect answers, especially because of the inherent lags between the research itself, its publication, and, most importantly, translation or adaptation of proposed ideas into actual policies. In addition, even the best policy ideas require the right timing. Persuading policymakers to adopt policy changes to better facilitate entrepreneurship is especially difficult because entrepreneurs are not well organized, and often don’t want or have time to be. (This is even more true of aspiring entrepreneurs.)

Nonetheless, Kauffman-sponsored research is having impacts through a variety of channels. Hundreds of studies on entrepreneurship or entrepreneurship policy have appeared in academic journals and books in just the past four years. Entrepreneurship issues now are addressed routinely in annual conferences of the major economics professional organizations. The authors of many of the papers on entrepreneurship subjects can be traced to the seminal work they did when writing their dissertations, supported by the Kauffman Dissertation Fellowship program. Some of the leading studies have been authored by recipients of the Kauffman Prize Medal for Distinguished Research in Entrepreneurship (see the essay from the most recent Prize recipient, Alexander Ljungqvist, on page 76).

Furthermore, references to Kauffman studies in the media and in the blogosphere are large and continue to grow. Kauffman grantees or scholars of

entrepreneurship have served in important policymaking posts in the federal government, in both the current and previous administrations.

But perhaps the most visible manifestation of the heightened recognition of the importance of entrepreneurship has come about through the unfortunate circumstances of the Great Recession.

As the major macroeconomic stimulus measures have begun to wane, more elected officials have pointed to the need to promote new firm formation and growth as the only sustainable way for the U.S. economy to recover. Similar sentiments can be found in the statements

Hundreds of studies on entrepreneurship or entrepreneurship policy have appeared in academic journals and books in just the past four years.

and policy positions advocated by government officials abroad. Time and again these statements refer to Kauffman studies documenting the critical role of new firms in creating jobs and expanding output.

None of us can rest on our laurels, however. There is still much that we do not fully understand about how scale firms, in particular, are best formed and grow. At Kauffman, we hope to learn at least some of the answers through Kauffman Labs for Enterprise Creation (see page 98 for more on this important initiative) and efforts like it. Likewise, in the policy arena, there remains much to be learned and then applied to the real world of policymaking. Nothing less than the future growth rate of the U.S. economy, and indeed the global economy, depends on the translation of sound research into effective laws, institutions, and policies that best foster the most successful future entrepreneurial enterprises.



## Venture Capital Networks and Investment Performance

ALEXANDER LJUNGQVIST, PH.D.

Ira Rennert Professor of Finance and Entrepreneurship, Stern School of Business, New York University

*Professor Alexander Ljungqvist is the recipient of the 2011 Ewing Marion Kauffman Prize Medal for Distinguished Research in Entrepreneurship. See a list of previous prize recipients at [www.kauffman.org/prizemedal](http://www.kauffman.org/prizemedal).*

Venture capitalists serve a vital economic function by identifying, funding, and nurturing promising entrepreneurs in industries associated with high risk and great potential for innovation and growth. However, the effectiveness of venture capitalists in these tasks and whether they provide capital and services on competitive terms to entrepreneurs is much debated. My work in the entrepreneurial arena seeks to shed light on these debates.

As the work of the 2007 Kauffman Prize Medal winner, Toby Stuart, has shown, networks feature prominently in entrepreneurial settings. In papers published in the *Journal of Finance* in 2007 and 2010, my co-authors, Yael Hochberg, Yang Lu, and I examine the role and consequences of networks among venture capitalists from the angles of financial economics, organization theory, and industrial organization. What we are primarily interested in is not whether networks exist or how extensive they are—we know that by now—but whether networks affect economic outcomes: that is, whether networks matter.

Our work suggests that they do. We use tools borrowed from economic sociology to show that networks among venture capitalists in the United States contribute to both the success of the startups that VCs fund and the VCs' own performance. It is the better-networked venture capitalists whose backing helps startups succeed, and that, in turn, is associated with superior returns. But there also appears to be a dark side. We show that networks among venture capitalists also may serve as barriers to entry into local VC markets, such as Silicon Valley in California or Route 128 in Massachusetts.

Let me be more specific. In a paper titled, "Whom you know matters," we show that venture capitalists who are better networked in the VC industry generate better outcomes for their investee companies as well as better returns for their investors, even after controlling for

skill and other known determinants of investment performance. Our research focuses on the co-investment networks to which VC syndication gives rise.

Syndication relationships are a natural starting point, not only because they are easy to observe, but also because there are good reasons to believe they affect the two main drivers of a VC's performance, namely, the ability to source high-quality deal flow (i.e., select promising companies) and the ability to nurture investments (i.e., add value to portfolio companies).

Extensive contacts in the VC community allow a VC fund to tap into information about up-and-coming entrepreneurs and to screen out undeserving requests for funding.

## Networks at Work

Networks can improve the quality of deal flow in a number of ways. Extensive contacts in the VC community allow a VC fund to tap into information about up-and-coming entrepreneurs and to screen out undeserving requests for funding. The

main reason other VC funds will play along is reciprocity: They expect the favor to be repaid in the future, and we show evidence consistent with such behavior. By checking each other's willingness to invest in potentially promising deals, VCs can pool their investment expertise and thereby select better investments in situations of extreme uncertainty about the viability and return potential of investment proposals.

Once a VC fund has made an investment, it can draw on the resources of its network contacts to help its investment grow and succeed. Networks facilitate the sharing of information, contacts, and resources among the VCs, for instance, by expanding the range of launch customers or strategic alliance partners for their portfolio companies. No less importantly, strong relationships with other VCs likely improve the chances of securing follow-on VC funding for portfolio companies and may indirectly provide access to other VCs' relationships with service providers, such as headhunters and prestigious investment banks.

Our empirical results suggest that VCs who are better-networked at the time they raise a fund subsequently enjoy significantly better fund performance, as measured by the rate of successful portfolio exits over the next ten years. At the portfolio company level, we find that a VC's network centrality—its importance in its network—has a positive and significant effect on the probability that a portfolio company survives to a subsequent funding round or exits successfully. Given the very high failure rates of VC-backed companies—around three-quarters of them tend to be written off—even relatively small improvements in a fund's ability to avoid investing in the wrong startup and avoid having a startup flounder for lack of support can have a large impact on the returns VC funds can generate for their investors, as our results show.

It seems plausible that the better-networked venture capitalists are also the older and more experienced ones.



Perhaps the leading alternative explanation for the performance-enhancing role of VC networking is simply experience. It seems plausible that the better-networked venture capitalists are also the older and more experienced ones. Interestingly, however, once we control for VC networks, the beneficial effect of experience on performance is much reduced. It is also not the case that the better-networked venture capitalists are simply those with better track records. While we do find evidence of performance persistence from one VC fund to the next, networking continues to have a positive and significant effect on fund performance, even when we control for persistence.

#### Denser Networks, Less Competition?

In another paper, “Networking as a barrier to entry and the competitive supply of venture capital,” my coauthor and I go on to examine whether strong networks among incumbent venture capitalists in local markets help restrict entry by outside venture capitalists, thus improving the bargaining power of incumbent VCs over the entrepreneurs they negotiate with in their local markets. Consistent with this hypothesis, we find that local VC markets in which the incumbent VCs have established denser networks among themselves experience substantially less entry. Of course, entry still happens, but it is interesting to see when it does. We find that entry is accommodated (rather than deterred) if the entering VC firm has established a relationship in its own home market with one of the incumbent VC firms in the market it seeks to enter.

We also find evidence of strategic reactions to an increased threat of entry. We find that the emergence of a tie between an incumbent in market A and another firm in market B increases the likelihood of entry into market A, which implies that such a tie is a potential threat to the other incumbent VCs in market A. It would not be surprising, therefore, to find that the other incumbents seek to

deter such ties from forming. Specifically, we see that the other incumbents react strategically to an increased threat of entry by excluding from their network (i.e., “freezing out”) any incumbent VC firm that builds a relationship with a potential entrant in another market.

Finally, we show that entrepreneurs seeking venture capital receive funding on significantly worse terms in more densely networked markets, while increased entry is associated with higher valuations. This, in turn, may help explain why better-networked VCs enjoy better performance, as our earlier article suggests. Part of the explanation for this may be due to the lower prices VCs pay for investments in more densely networked markets. Of course, an unanswered question is whether networks provide

offsetting benefits to entrepreneurs. For instance, raising money in a more densely networked market may take less time.

My study of venture capital networking builds on extensive prior research describing the existence and extent of networking among VCs. It extends this prior research in two ways: first, by showing that networking benefits VCs, their investors, and—in terms of a greater likelihood of survival—the companies the VCs back. At the same time, networking can have a potentially darker side, by making it harder for VC firms to enter local markets that they haven’t previously operated in, and thereby reducing the competitive supply of venture capital.

... we show that entrepreneurs seeking venture capital receive funding on significantly worse terms in more densely networked markets, while increased entry is associated with higher valuations.



## Toward Prosperity and Growth

WILLIAM J. BAUMOL, Ph.D.

Senior Advisor, Ewing Marion Kauffman Foundation; Harold Price Professor of Entrepreneurship and Academic Director, Berkley Center for Entrepreneurship and Innovation, New York University; Senior Economist and Professor Emeritus, Princeton University

“In other countries poverty is a misfortune—  
with us it is a crime.” — Edward Bulwer-Lytton, *England and the English*

Surely the vast numbers of people who live on two dollars a day or less, along with the many children who lack basic medical care (in both the developing world and a comparatively wealthy nation, like the United States) should be a primary concern of economists. Yet, in paying inadequate attention to the role of entrepreneurs, economists also overlook vital opportunities to contribute to the eradication of these blights to the general welfare. Entrepreneurs’ role in combating poverty is substantial—in dealing with both the shorter-run problems posed by recession and unemployment and in countering the more significant, long-run impediments to reduction of poverty posed by a society’s lack of innovation and economic growth.

Arguably, the latter is the more significant matter, as the end of a short-term recession can reduce unemployment and enhance per capita incomes, but only innovation can bring the substantial, long-term economic growth that, for example, led to the seven-fold-plus rise in real per capita income that

is estimated to have occurred in the United States and other industrialized countries during the twentieth century. Either way, however, I am not claiming that entrepreneurs can perform these growth miracles all by themselves, nor am I implying that they all play similar roles in creating economic growth.

### The Role of Entrepreneurs and Their Indispensable Partners

During recession, for instance, it is those replicative entrepreneurs who open retail shops or other businesses of the standard variety that are most effective in creating new jobs and thereby aid in the economic recovery. Of course, these replicative entrepreneurs do not act alone. Success in their business efforts requires the help of others—especially those who provide them with loans and those who educate them in the relevant regulations governing their businesses, among others.

In the case of long-term growth, the role of replicative entrepreneurs is reduced substantially. Instead, innovative entrepreneurs, with their new products, new processes, new markets, and novel approaches to putting inventions to effective use, are key to an economy's long-term growth. Indeed, without innovative entrepreneurs, many promising inventions may never have been put to effective use and, as a result, the totally unprecedented explosion of real per-capita income noted earlier never could have occurred.

Innovative entrepreneurs are even more dependent than replicative entrepreneurs on others who play complementary roles in furthering their efforts. Since innovative entrepreneurs are, fundamentally, the marketers of inventive ideas contributed by others, the work of inventors is obviously indispensable to their activities. In addition, innovative entrepreneurs also require the help of producers—often large, well-established enterprises—to whom they frequently sell either the inventions per

se, or the right to use those inventions. As early as 1803, the great economist, J. B. Say, recognized this, noting that effective innovation requires the triple partnership of the innovative entrepreneur, the inventor, and the manufacturer.

However, Say failed to mention a critical fourth player—government—to which we may ascribe a key role in the generation of growth via innovation. In the centuries leading up to the British industrial revolution of the late-eighteenth century, for instance, government paved the way for an

explosion of innovation through changes made to public sector practices ranging from the general move toward uniformity of legal standards via the adoption of “the Common Law” in the twelfth century to the creation, in 1623, of the patent system as an institution mandated by law. Indeed, in any time period and

Innovative entrepreneurs, with their new products, new processes, new markets, and novel approaches to putting inventions to effective use, are key to an economy’s long-term growth.

geographical location, functional governments carry out many critical activities, such as constructing and maintaining infrastructure (used by businesses) and supporting education (thereby ensuring a supply of knowledgeable and skilled employees). As such, it is clear that governments play an indispensable role in enabling the innovation and entrepreneurship that fuel economic growth, though we also know that, in all too many cases, misguided governmental policy and activity can be a powerful impediment to economic expansion. I emphasize the often-overlooked role that government plays, as partner to the innovative entrepreneur, in the process of enhancing an economy’s prosperity, because one serious threat to prosperity and growth emerges from developments related to international trade. Action by government may be indispensable in dealing with this problem.

## The Threat Underlying International Trade and Possible Solutions

The United States faces a threat to international trade as productivity in its trading partners grows and their share of imports follows. As part of this, gains from trade will be diminished in the United States and living standards will be imperiled.

Stated Alan S. Blinder in a *Foreign Affairs* essay, as this trade imbalance continues over time, demand for labor in the United States will fall, bringing down wages and reducing the number of jobs available in the United States. Indeed, all of this appears to be happening already, as some governments have intervened to distort the market-determined pattern of trade to their own advantage. At the very least, this problem poses a significant impediment to the prosperity and growth that otherwise would be contributed by full freedom of trade.

Unfortunately, the oft-proposed remedy for this situation—training more inventors and encouraging innovation—will not provide the remedy because the innovation process, with its limited

demand for labor, employs a mere fraction of the labor force that once was employed in manufacturing or that is now engaged in the service sector. Indeed, we do not know of any automatic market mechanism that can be relied upon to solve this problem by itself. Nor is the answer a retreat to trade protectionism, with its many perils (namely, its impediments to production of the different commodities, assigning each to the countries that can do so most efficiently).

Governments play an indispensable role in enabling the innovation and entrepreneurship that fuel economic growth, though we also know that, in all too many cases, misguided governmental policy and activity can be a powerful impediment to economic expansion.

Instead, it can be argued that only government can introduce policies that discourage such trade distortions and the business practices that arise from them—for instance, the off-shoring of production and the outsourcing of service jobs. The introduction of new regulations that encourage both domestic invention and domestic production of the products yielded by those inventions is one possible method of countering the current trade imbalances. Warren Buffet’s proposal that we introduce what amounts to a market for import licenses—with tradable import licenses issued to every firm in an amount that equals the value of each firm’s exports—also merits consideration. Surely such a scheme would induce entrepreneurs to find inventive ways to stimulate exports as a means of obtaining the valuable import licenses.

The bottom line in all of this is that the activities of the innovative entrepreneur are critical for the economic processes that ensure long-run prosperity and economic growth, which, in turn, yield the resources necessary for continued reduction of poverty. Clearly, entrepreneurs play an indispensable role in this process. However, it is important to understand that they do not act alone. Rather, success in entrepreneurial activities requires the collaboration of several parties—notably, inventors, firms that produce the inventions, and government, which alone can ensure that the “rules of the game” (e.g., those of international trade, among many other “games”) are compatible with the general welfare.

Some of the main ideas in this discussion were contributed by my colleague and collaborator, Ralph Gomory, to whom I am indeed grateful.



## Understanding the Economy, One Business at a Time

E. J. REEDY

Manager, Research and Policy, Ewing Marion Kauffman Foundation

The Census Bureau gathered data on more than 300 million United States residents in 2010. At \$15 billion and counting, the 2010 Decennial Census is the largest-ever federal effort to collect statistics on the American population.

While countries are concerned with tracking key information on their citizen populations, they also have an interest in tracking their business populations to monitor the state of the economy. Although businesses are human creations (Hello, Mr. or Ms. Entrepreneur), they actually are independent and legally functioning entities that are not well-studied through the Decennial Census or most household surveys. Unfortunately, measurement of business activity has advanced scientifically more slowly than measurement of household activity. As a result, many of our limitations in understanding the complexities of entrepreneurship stem from a lack of meaningful data—something the Kauffman Foundation and many others are working to change.

Improving measurement of business activity can help to drive more effective research into entrepreneurship—a key priority in our efforts. And sound policies need quality research as a basis. Historically, entrepreneurship as an area of study has lacked rigorous empirical research. Good data also are important to businesses and the entrepreneurs or managers behind them who are trying to make decisions, but who lack benchmarks or market research knowledge.



## Metrics for the Twenty-first Century

Kauffman's interest in creating better, more accurate, and timely entrepreneurship and innovation data came at the perfect time. For years, the United States has tried to update its measurement infrastructure to better cover businesses in the modern economy, but Congress wouldn't embrace funding such relatively cheap modernization work.

To simplify things greatly, it would be accurate to say that our nation (and most other nations) is better equipped to measure the economy from the 1950s rather than the 2010s. Measuring the activities of large manufacturing firms is relatively easy. These were the firms of most interest and relevance when the modern national statistical offices came into being after the Depression. It's the smaller, newer firms, primarily involved in services delivery—among the most common firms in today's U.S. economy—that are more of a mystery. But, thanks to complementary (and sometimes coordinated) efforts as well as technological advances in collecting and matching data, that is beginning to change.

Recent studies conducted with Kauffman support have looked at changes occurring in the U.S. economy that can only be explored because of new data becoming available. One notable example of converting the data into a compelling collection of policy briefs is the Kauffman Firm Formation and Economic Growth Series. Kauffman Research Manager Dane Stangler took the lead in translating some of the mountain of recently available data into an easy-to-understand and informative series. We make these insights from our associates and partners available to researchers, policymakers, the media, and the public to foster a better understanding of the entrepreneurial ecosystem.

## Building a Statistical Infrastructure

At its heart, entrepreneurship and innovation measurement are about understanding changes in business over time. Entrepreneurship looks more at changes in the population of businesses and business owners; innovation more at the products, services, and activities of these businesses, owners, or employees. Beginning in

### Kauffman Foundation Research Series: Firm Formation and Economic Growth

This Kauffman Foundation research series consists of reports that explore the relationship between firm formation and economic growth in the United States from a variety of angles.



**Where Will the Jobs Come From?** Newly created and young companies are the primary drivers of job creation in the United States.



**The Importance of Startups in Job Creation and Job Destruction.** Net job growth occurs in the U.S. economy only through startup firms.



**Exploring Firm Formation: Why is the Number of New Firms Constant?** New-business creation in the United States is remarkably constant over time.



**After Inception: How Enduring is Job Creation by Startups?** The majority of the employment that startups generate remains as new firms age, creating a lasting impact on the economy.



**High-Growth Firms and the Future of the American Economy.** High-growth firms account for a disproportionate share of job creation in the United States.



**Neutralism and Entrepreneurship: The Structural Dynamics of Startups, Young Firms, and Job Creation.** Patterns of firm formation and survival help explain the extraordinary job creation by startups.

The full reports are available at: [www.kauffman.org/firmformationandgrowth](http://www.kauffman.org/firmformationandgrowth).

the late 1990s, some of the Kauffman Foundation's funding began shifting to data collection projects and other research.

While Kauffman has supported data development efforts on topics from intellectual property litigation to bankruptcy, the Foundation's most significant investment in data is the Kauffman Firm Survey (KFS)—the largest and longest longitudinal survey of new businesses in the world—which follows a cohort of 4,928 firms that began operations in 2004, annually, through 2011. This public-use research dataset creates records about the same 4,928 businesses each year to track sources and amounts of financing, firm strategies and innovations, the owners, and outcomes such as sales, profits, and survival, as well as other issues. Researchers are using KFS data to explore myriad important topics.

Researchers, media, academics, and policymakers use Kauffman's comprehensive entrepreneurship research, available on the Research and Policy page of [www.kauffman.org](http://www.kauffman.org).

### A Global Measurement for Entrepreneurship

Today, the Kauffman Foundation supports numerous original data collection projects and efforts to improve statistical infrastructure globally, which ultimately will generate a wave of new understanding of the roles entrepreneurship and innovation play in driving economic growth. A key Foundation investment is the Organisation for Economic Co-operation and Development (OECD) Entrepreneurship Indicators Program (EIP). The EIP establishes multiple measures of entrepreneurial activity data that can be compared internationally based on information that national statistical offices produce according to new, internationally agreed-upon definitions. The data demonstrate the critical role entrepreneurs play in the global economy.

## Kauffman Firm Survey Data Fuels Global Research

While working on his dissertation, **Fabrice Cavarretta**—now Assistant Professor of Management and Entrepreneurship at ESSEC Business School in Paris, France—was curious about an intriguing question: What effects do founding equity and team composition have on new venture performance? Although the question was outside the scope of his doctoral work, it set the direction for Cavarretta's future research.



As he looked for relevant information on which to base his studies, Cavarretta reviewed existing datasets, but found they only had information on either nascent entrepreneurs (i.e., before the startup is born), or on firms that were mature enough to have made initial public offerings or to have become visible to venture capitalists.

"There was a big gap in the middle, and those were the true startup firms I was interested in studying," Cavarretta said.

It would have been impossible for Cavarretta, as an individual researcher, to gather the data on his own. In early 2008, however, he received a noteworthy announcement through his mailist, an e-mail system that allows subscribers to participate in discussions together. The correspondence heralded the availability of the Kauffman Firm Survey (KFS) dataset, based on the world's largest longitudinal study of new businesses, which is tracking almost 5,000 U.S. companies founded in 2004. Cavarretta's initial review of the KFS data satisfied his need for information on founders' ages, nationalities,

ethnicities, and funding, as well as his desire to study a wide sample of firms, beyond the usual focus on high-tech companies.

"The data allowed me to immediately conduct the analysis I was interested in," Cavarretta said. "I was very excited by the availability of information on various organizational and performance factors across a broad sample of industries. Only the KFS data was rich enough to allow me to research that extensively."

Cavarretta now has conducted a two-pronged study based on the KFS data, discovering that founding equity and the number of founders at startup increase performance variability. Specifically, his research reveals that companies tend to dramatically outperform the average startup if they make good use of abundant human capital and equity resources, but significantly underperform if they make poor use of those same resources.

Cavarretta's working paper, "Too Much of a Good Thing? Resource Effects in New Ventures," which he co-authored with Nathan Furr based on analysis of the KFS data, proposes that resource abundance can be both a blessing and a curse, and suggests "the need to reexamine our approach to theory-building to more fully account for how variability can help predict extreme outcomes."

Cavarretta plans additional research using the KFS data. In the near term, he will return to study startups' founding team members to determine what effect their ages have on firm performance. His research is among the KFS-based studies being conducted across the globe to reveal important insights about entrepreneurship.

## Expanding Our Impact

While many know our role as funder, we likely are having our broadest impact in the roles of facilitator, advocate, and subject-matter expert. Kauffman tracks what is going on under the hood of the federal statistical engine. We keep tabs on the Federal Register of data the government collects, fund National Academies business research, and serve as advisors to cabinet members.

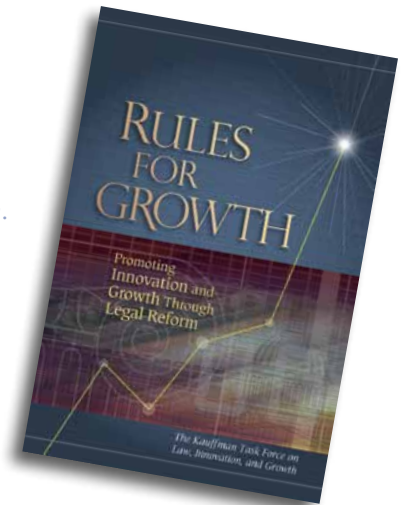
We developed the Kauffman Symposiums on Entrepreneurship and Innovation Data to provide a venue for potential users and producers of new data to connect with one another.

At the 2010 Kauffman Interagency Data Forum, we brought together fifty representatives from the federal statistical community, academia, and other interested parties to talk about upcoming changes to the ways federal statistical agencies collect data. We continue the data conversation over the course of the year through Data Maven ([www.kauffman.org/blogs/datamaven.aspx](http://www.kauffman.org/blogs/datamaven.aspx)), a blog developed to track new developments in entrepreneurship and innovation measurement.

Many improvements are under way, but many more are needed—such as developing better concepts of the types of innovation that are most relevant in new firms and getting a handle on high-growth firms globally. Additionally, now that data are becoming available, much of our current and future work focuses on dissemination to ensure that researchers make use of these data, mainstream media become better informed, and, ultimately, policymakers and entrepreneurs get better information to drive their decisions.

## Redesigning Rules to Maximize Growth

*The following overview sums up Rules for Growth, a Kauffman-published book that examines how laws and institutions affect economic growth and how thoughtful adjustments in these rules can help make growth happen. The book addresses a surprising and critical void in understanding how to accelerate long-term growth in the size of the “economic pie.”*



The global recession of 2008 has intensified policymakers' focus on finding ways to promote economic growth. While Brazil, China, India, and other emerging economies have ridden out the storm reasonably well, most European economies and the United States have grown unusually slowly since bottoming out some time in 2009, while racking up enormous debts for economic stimulus and various financial bailouts.

Given the persistence of high unemployment rates, it is understandable that policymakers focus on decisions they believe have immediate payoffs. People desperate to find work after long periods of unemployment need jobs *now*, while those who fear getting laid off need the comfort of knowing that a growing economy will sustain their employers' economic health, or, at the very least, boost their prospects for finding jobs elsewhere.

In such an environment, it is all too easy for policies designed to boost *long-term* growth—the key to sustained improvements in living standards and an important lubricant to ease social frictions and anxieties—to get lost in the political shuffle. Policy adjustments to spur entrepreneurship and innovation, in particular, can get short shrift, even though a substantial body of economic evidence shows that innovation is the most important “factor of production” behind economic growth in developed economies, and that entrepreneurship, in turn, is a principal means by which innovations find their way into economies and societies.

At the Kauffman Foundation, we are convinced that the current public debate—with its focus on the traditional policy levers of fiscal and monetary policy—is neglecting to concentrate on potentially significant yet low-cost ways of advancing long-term growth. In particular, what’s missing is consideration of the ways that our laws and legal institutions might be changed, at essentially no cost to taxpayers, to promote the entrepreneurial activity and innovation that enable firms and economies to grow.

Unfortunately, the relevant scholarly research on this subject is sparse. Broadly speaking, the law and economics literature, which one would think would be most apt, largely has concentrated on what economists call “static efficiency”—that is, ways of making economies more efficient in the short run using existing resources and knowledge. This literature has not yet tackled the far more important challenge of designing rules to maximize economic growth, or achieving “dynamic efficiency”—fostering the development and commercial application of new knowledge that generates more rapid advances in the size of the “economic pie” over the longer run.

To be sure, economists have been quite successful building models that *describe* how growth happens. But they have been less successful identifying and verifying

specific policy changes that can reasonably accelerate growth. For example, we still don't know with much certainty what's inside the black box we call "innovation," what specific factors influence it, or to what degree. We presume, for example, that

## The Genesis of *Rules for Growth*

To start filling the research void, the Kauffman Foundation began funding legal scholars and economists throughout the country to study ways of improving the U.S. legal and policy environment so that it better fosters innovation, entrepreneurship, and growth. Every year, the Foundation brings together many of these scholars in a summer conference, the Kauffman Summer Legal Institute (KSLI), to discuss ongoing research in this area.

In July 2010, for the first time, the KSLI attendees discussed formal papers that identified areas of the law that could reasonably accelerate innovation and growth. The product, *Rules for Growth*, is a comprehensive, and we believe path-breaking, volume that should interest policymakers and scholars in law, economics, business, public policy, and other academic disciplines.

some rules, such as patent and trademark protections, encourage growth by ensuring that inventors and innovators can enjoy an economic benefit from their own creativity. But there is little empirical evidence to prove or disprove that presumption and others like it. With more definitive information and scholarship, policymakers would be better positioned to act in ways that spur economic growth on a sustained basis.

We asked legal scholars and economists throughout the country to help us write what became a comprehensive must-read for anyone interested in how our laws impact economic expansion titled, *Rules for Growth*. Among the many reforms

those scholars, members of the Kauffman Summer Legal Institute (KSLI), propose in *Rules* are adjustments in U.S. immigration policies to open the door more widely to immigrants with entrepreneurial inclinations, ways that universities on their own (or with the prodding of the federal government) can accelerate the commercialization of faculty-developed innovations, and modifications of anti-trust doctrines to better accommodate globalization of commercial activity and the increasing importance of "network" industries (telecommunications, software, and the proliferation of Internet-based platforms and businesses, for example).



In the process of examining specific legal rules, the KSLI participants also stepped back to notice the astounding pace of change, not only in technology, but also in the ability of innovative thinkers to conjure products and services not contemplated by existing statutes. The implication of rapid change in economies and societies is that rules must be adaptable and flexible. In the Internet age, inflexibility impedes innovation as rigid rules become obsolete with the click of a mouse, a new digital chip, or an idea that may grow into a future Facebook or YouTube.

More broadly, the law must accommodate socially useful innovations, while weeding out socially destructive innovations at an early stage. The world has just witnessed, for example, how opaque and highly complex mortgage securities proved highly destructive, nearly bringing the developed economies to their proverbial knees. But the crisis and recession to which these “innovations” led does not mean that government should be in the business of preemptively screening all future financial and other innovations. To the contrary, the default rule in our economy—with some

notable exceptions in the areas of pharmaceuticals and nuclear power, where mistakes can lead to large losses of life—is that the *market* determines which innovations thrive and which do not. Regulation—ranging from disclosure, rules governing product design, or, in extreme cases, outright prohibition—is appropriate only with evidence that

some innovations are causing harm, and that the benefits of specific regulations outweigh their costs. If a different default rule had been in place, namely that products or services that conceivably cause injury must be approved, changed, or even stopped from entering the marketplace, then it is conceivable that

But, as we balance the tradeoffs between growth and other values, the odds of smart decisions will improve immeasurably if we understand the interaction between rules and outcomes.

commercial innovations that now characterize modern society—airplanes, cars, and even electricity—might never have passed regulatory muster, or, if they did, their availability and utility to consumers might have been significantly delayed. In short, legislators, regulators, and judges should be open to change and not reflexively punish the new because it is not explicitly allowed for under the law or under some theory that it might cause some harm.

Economic growth, of course, is not the sole goal of public policy. Achieving other objectives, such as clean air and water or public health, may stand on the same plane as growth, and a societal desire for more equal distribution of income and wealth may require rules that tend to inhibit growth. But, as we balance the tradeoffs between growth and other values, the odds of smart decisions will improve immeasurably if we understand the interaction between rules and outcomes. *Rules for Growth* is written with that objective in mind, and so is the Foundation's continuing funding of research into the important and sometimes overlooked connections between law, innovation, entrepreneurship, and growth.

*Rules for Growth* is available for free download at [www.kauffman.org/rulesforgrowth](http://www.kauffman.org/rulesforgrowth).

# Starting Up Growth





## Kauffman Labs

### Building the Next Generation of High-Growth Companies

BO FISHBACK

Vice President, Entrepreneurship, Ewing Marion Kauffman Foundation; President, Kauffman Labs for Enterprise Creation

This is the story of the making of a business startup engine unlike any other. Turbo-charged by the Kauffman Foundation, Kauffman Labs for Enterprise Creation is embarking on a new way to educate the most ambitious and innovative aspiring entrepreneurs to design, architect, and build the next great high-growth companies that will transform lives.

Why the focus on scale? One of the most compelling facts to emerge out of recent Kauffman-funded research is that a surprisingly small number of high-growth, young companies account for a large percentage of growth in our economy. Astonishingly, as important as these companies are to the economy, no one—not even the most-respected academics or well-heeled venture capitalists—knows what it takes to intentionally design and create high-growth, scalable success.

Like the promising startups it seeks to nurture, Kauffman Labs is the product of in-depth expertise and informed planning. But, although we are an outgrowth of many years of research and development at the Kauffman Foundation—which has invested close to a half-billion dollars in the development of classes and programs to directly and indirectly assist entrepreneurs—we do not have any magic answers for what it takes to build high-growth companies. Yet. That's why

we call this Kauffman *Labs*. In addition to helping founders learn how to start scale companies, we will be closely studying the process to advance our understanding of high-growth entrepreneurship over the long term. We will synthesize and apply that knowledge to make the creation of scalable companies far more deliberate.

### The Kauffman Labs Experience

Ambitious business founders think about—and plan—for scaled growth early on. They execute beautifully at the proof-of-concept or pilot phase. They show that their product works and is desired by the market, but they have little understanding of how to take it to the next steps to significantly grow the business.

... we will be closely studying the process to advance our understanding of high-growth entrepreneurship over the long term.

We hope to help founders prepare for this eventual and critical stage from the very beginning. We will help them understand the markets they are wading into, identify and attract the best talent in the world to help them put the right pieces in place, test the market, and iterate ideas, all while learning how to thoughtfully pivot into the next stage.

Kauffman Labs entrepreneurs will rarely spend time sitting in a classroom. When they do, they will immediately apply what they learn. We will provide tools, mentoring, networking, and in-the-field experiences that would be extremely difficult to obtain for even the most resourceful entrepreneurs. Giving entrepreneurs the ability to access the world's leading minds and market experts gives them the power to transform the direction and scale of new ventures—as long as they are capable of listening, synthesizing, and applying what each of those experts brings to the table.

We will be learning as we work with the founders who participate in Labs programs. We began this practice with a “pilot” program that was designed to work with postdoctoral researchers who were aspiring founders. The Kauffman Entrepreneur Postdoctoral Fellowship Program lasted one year and led to the next iteration of Kauffman Labs. (Read the sidebar on the next page from one of the postdoc fellows who describes what he learned from his Labs experience.) Our biggest lesson: Markets matter.

### Markets Matter

Our experience working with founders has made it starkly obvious that, to help companies start and grow fast, we needed to work with aspiring founders in similar markets. Different markets require radically different expertise, networks, bodies of knowledge, and strategies for success. The impact of markets on specific ventures is an ill-appreciated science that, if taken seriously, could lead to fundamental breakthroughs in terms of what is required to design a company for scale.

We're looking for  
founders who have  
unproven, but  
remarkable, potential.

Kauffman Labs will launch programs market sector by market sector. We will conduct in-depth research of sectors that are billion-dollar industries, face revolutionary changes, are uninhibited by regulatory hurdles, and attract the best and brightest minds. As we move forward, we'll bring together global experts in those industries to serve as advisors and mentors for each program. We'll tap into the experience, network, and knowledge of the Kauffman Foundation to give our founders unparalleled resources.

Our inaugural market sector is education—a booming \$1 trillion market in the midst of monumental changes and ripe for transformation. Given the Foundation's

## Insights from an Entrepreneur Postdoctoral Fellow

Kauffman Labs for Enterprise Creation piloted its first program for aspiring founders with its Entrepreneur Postdoctoral Fellowship Program, a one-year program designed to work with thirteen select postdocs ready to form or grow their startups. Lessons learned from this inaugural Labs program helped to shape subsequent iterations of Labs, such as the imperatives of one-on-one mentors and creating market-specific cohorts. Following are insights from one entrepreneur postdoc fellow.

There are nearly 50,000 postdoctoral researchers in the United States. Although these brilliant investigators are on the front lines of scientific innovation, few are connected to universities that provide guidance into entrepreneurship as a means for commercializing key discoveries.

### **Riccardo LoCascio, Ph.D.,**

associate director of new ventures at Foods for Health Institute at the University of California-Davis, was one such researcher. His general involvement in launching startups had piqued his interest in streamlining the inefficient process of creating enterprises from academic research. In 2009, he applied and was one of thirteen participants selected for the Kauffman Foundation's Entrepreneur Postdoctoral Fellowship Program.



During his fellowship, LoCascio focused on seeding startup companies based on academic research related to food and health. Through the program, he became an associate at PureTech Ventures, a Boston-based, early-stage enterprise creation group. LoCascio also participated in intensive entrepreneurship workshops at the Kauffman Foundation, interacting with other scientists and industry experts to discuss the challenges and approaches to commercializing research.

"Startup entrepreneurs often are alone in academic settings," LoCascio said. "Being in contact with other entrepreneurs through the Kauffman Labs workshops allowed me to participate in roundtable

discussions about the problems faced in enterprise creation, and to brainstorm solutions. Kauffman Labs provided the fertilizer needed to grow a healthy, rich community of aspiring entrepreneurs."

LoCascio's own research concentrates on dissecting human breast milk and understanding its function and benefits to infants. LoCascio now is developing technologies to obtain commercially viable sources of these beneficial compounds so they can be incorporated into foods that promote digestive health.

Kauffman Labs exposed LoCascio and his peers to world-class speakers who are biotech industry veterans, and gave him a unique opportunity to have one-on-one coaching and mentoring from these experts.

"Kauffman Labs brought in people at very high levels who were forthright about the expectations we should have if we are to create companies," LoCascio said. "It's difficult to achieve similar exposure when you're a lone entrepreneur at a university."

A key insight from his year at Kauffman Labs, LoCascio said, was that he can create good in the world by establishing a profitable company that generates jobs and spurs economic growth.

"Before participating in Kauffman Labs, I was searching for the right model of social entrepreneurship, one that would create social good while generating the capital needed for R&D and profits for investors," he said. "I now understand that a dollar invested in a company can create \$100 in new jobs and economic development. I can improve people's health and, at the same time, break the cycle of poverty and dependence on aid.

"Typical commercialization routes may create lags of five to fifteen years before technology is on the market. Kauffman Labs helped me understand the value and means of accelerating innovation, which helps to make sure that the science does good."

roots in education, launching the Kauffman Labs Education Ventures Program seemed a perfect place to start. (See photos from a weeklong boot camp for the finalists held in November 2010 on page 180.) Other sectors will be thoroughly vetted before becoming Labs programs, but in the next three to five years, we aim to catalyze the creation of fifty to one hundred scalable companies across five to ten vertical markets.

### Seeking Founders

While we hope to attract ambitious, intelligent, and teachable aspiring entrepreneurs to Labs programs, we are not in the business of picking

“winners”—innovators who are already on their way to success. We’re looking for founders who have unproven, but remarkable, potential. We then will foster their understanding of where they are headed to help them catalyze the creation of high-growth companies that may not have existed otherwise.

For those selected for each program, whether they are sole candidates or members of teams, Kauffman Labs is the runway, the platform, for massive success.

Labs applicants will go through a highly competitive selection process. For those selected for each program, whether they are sole candidates or members of teams, Kauffman Labs is the runway, the platform, for massive success.

There’s a parallel between the institutional approach of Kauffman Labs and the right founders. Success, for both, requires unbridled ambition grounded in experience, the ability to iterate, and the right networks. It calls for a rare blend of confidence and humility—everyone involved must be open to learning. Success at Kauffman Labs requires both optimism and a grasp on reality.



Kauffman Labs is just one “startup story” presented in this section. You also will read an essay by the founders of Startup Weekend, who tell us how they are stirring up the startup world with their popular weekend retreats for entrepreneurs. An essay from a serial entrepreneur outlines a clear definition of four entrepreneur “types,” which can help founders identify the tools they need, and help policymakers and entrepreneurial supporters understand what to expect from each. You’ll also find a piece that shares insights coming out of a nationwide “Startup Tour” that consisted of on-site visits to some of the most compelling technology startups in the country. Finally, we have a conversation about how more women can be encouraged and supported to start high-growth companies, and the obstacles they face.



## Stirring Up the Startup World

A Conversation with MARC NAGER

Director, Startup Weekend

*Startup Weekend is a nonprofit organization based out of Seattle, Washington, which hosts fifty-four-hour events that educate aspiring entrepreneurs by immersing them in the process of moving an idea to market. Startup Weekend has helped educate more than 21,000 entrepreneurs at more than 170 events worldwide, facilitating the launch of some 650 new startup ventures around the globe. With events in more than 124 cities and thirty-plus countries, Startup Weekend is a signature event during Global Entrepreneurship Week, a Kauffman Foundation initiative that annually introduces millions of young people around the world to entrepreneurship.*

*Marc Nager jumped full-time into Startup Weekend in 2009. He serves as director along with Clint Nelsen and Franck Nouyrigat. A bootstrapping startup itself, Startup Weekend operates with a small core team based in Seattle and key program facilitators in cities around the world. With a background in international business, technical services, and business processes, Nager travels the world building communities and advising startups. In the following interview, Nager describes what happens at these events that are inspiring startups worldwide and how the Startup Weekend phenomenon has struck a chord that resonates with entrepreneurs everywhere.*

## What is Startup Weekend?

Startup Weekend recruits a highly motivated group of developers, business managers, startup enthusiasts, marketing gurus, and graphic artists to come together in a meaningful way in order to transform ideas into reality. Startup Weekend doesn't teach entrepreneurship in a classroom setting. We follow a fun, interactive, and results-driven model. As a result, we have become one of the leading catalysts for startup creation, co-founder dating, and entrepreneurship education in startup ecosystems around the world.

## Can you describe what happens at an event?

The aspiring entrepreneurs have sixty to ninety seconds to present ideas for new startup ventures. Teams then form around the best ideas. These teams are composed of four to ten people, and usually are balanced in terms of technical and non-technical backgrounds and expertise. Entrepreneurs then spend the entire weekend getting advice from professional mentors and building a proof of concept, demo, or sometimes even a finished product.

## All that happens in just a few days?

We really want to stay focused on actually starting new businesses. Our motto is, "No talk. All action."

We have facilitators who are passionate about getting involved in startup communities around the

world. We put expectations in place at Startup Weekend, and we don't waste time. We bring everybody together and give them deadlines, but the key to

We're not just here to talk; we're here to empower people to start businesses.

our success is that we also provide tools to help them meet those deadlines. We're not just here to talk; we're here to empower people to start businesses. Because everybody in the room considers themselves to be entrepreneurs, they begin coming up with novel approaches to the problems they're facing. We encourage them to start tackling these problems right away.

Is there any apprehension about sharing ideas openly with the group?

Oftentimes the question is, well, I don't want to share my idea with the world. What happens if somebody takes it and runs with it? But what we find and what we are able to share with the rest of the world is that ideas need to be shared in order to be refined. Ideas are a dime a dozen. It's the execution that matters.

So the idea gains momentum and gains strength along the way.

Exactly. In many cases, your initial pitch looks nothing like your final product. As a team, you begin to reiterate, reform, and shape it into something better. You know Facebook or Google didn't begin looking anything like what they've become today.

How does Startup Weekend fit with the other resources communities are offering to help entrepreneurs?

The more aligned our visions and our efforts are, the more the communities win and the more value we can bring to entrepreneurs. Global Entrepreneurship Week, for instance, is a chance to realize that you're not alone in this movement, and it is an opportunity to actively take part in the experience. It is a great time to take what can be learned through more

traditional programs and other events during GEW and test them out using real-life scenarios and solving everyday problems. Together we create that culture, that ecosystem that supports startups and entrepreneurs.

### Can you feed off the energy in the room of a Startup Weekend?

We're lucky at Startup Weekend to get to work with passionate entrepreneurs around the world. We see that everybody has ideas and is very interested in solving problems. It's a theme that is common no matter where you are.

It may sound like a cliché, but sometimes it's a little bit scary trying to be an entrepreneur. We need to help people come together and move beyond that feeling. All you need are the right people and the right resources to begin creating solutions.

The philosophy of Startup Weekend is something that strikes a soft spot with every entrepreneur out there. It's all about working together to build the newest, greatest, and most innovative thing imaginable.



## News from the Road

### Cringely's "Not in Silicon Valley" Startup Tour

ROBERT X. CRINGELY

Author of the technology blog *I, Cringely*

*Bob Cringely is a technology journalist whose columns and TV specials reveal the inner workings of Silicon Valley. In the summer of 2010, with sponsorship from Kauffman, he set out on a 10,000-mile tour to visit unusual and little-known startups across the United States. You can find an account of the tour at [www.cringely.com](http://www.cringely.com), but here are some highlights, from his remarks when he stopped at the Foundation along the route.*

This bus is a 1996 Winnebago Adventurer. Last summer my family had a great time traveling around the country in it, and my brilliant wife, Mary Alyce, said, "Let's find a way to do this again." So we came up with the idea of a startup tour. I have 500,000 weekly readers of my blog. They nominated hundreds of innovative companies they thought the world should know about.



We selected about thirty-two, all over America, and the acceptance we got from the startup people was astounding. We went to people's houses, parked in their

driveways, heard about their dreams and how they're realizing them. And we discovered an amazing variety of companies, which are barely mentioned in the general media.

In Ann Arbor, Michigan, we met a twenty-two-year-old recent graduate from the University of Michigan who's invented paper sandals. His company is called Paper-Feet, and the sandals are actually made from recycled billboard vinyl. There's enough billboard vinyl made and used and thrown away in America every year to cover the state of Massachusetts. He's turning the stuff into sandals for the third world, for the first world, for the cool world, selling them at low prices on the web.

And we discovered  
an amazing variety of  
companies, which are  
barely mentioned in the  
general media.

Then in Brighton, Michigan, we have an entrepreneur who has found a way to fuel-inject \$600 motorcycles made in China. The countries that have the most motorcycles in the world are China and India. They're making over forty million new ones a year. If the manufacturers install this company's little fuel injection unit, instead of a carburetor, it raises the fuel economy 15 percent and cuts emissions by 95 percent! The company is ElectroJet. The founder and many on his team worked in the Detroit auto industry. So here's a Motor City spinout, marketing an American technology to India and China that's going to help clean up their air pollution, by making its engines run better. Now, isn't that the way it should be?

We also spent time with some folks in St. Louis who are part of a startup called Square. They have a little device—I think I have one in my pocket—that you plug into the top of your iPhone or your Android phone, which allows you to take

credit cards for whatever you're selling. This will revolutionize flea markets and tag sales and anything else where people want to take card payments. That's amazing.

And back to motorcycles, in Portland, Oregon, we saw a one-wheel motorcycle. It's kind of like a unicycle except it has gyroscopic balancing, it's electric, and it goes twenty-five miles an hour. The company is Ryno Motors, and they're selling this to police departments to use in place of Segways. Not only does it cost less, it has other advantages for police patrolling a beat. Cops don't like to stand all day, Segways aren't very maneuverable, and an electric motorcycle puts them eye to eye with citizens. It's a social leveling thing, which is very important in law enforcement.

These are just a few of the things we learned. Most of the companies we visited were very modestly financed, which proves that to change the world doesn't require raising a lot of money. The role of companies like these in our economy and culture has been way underestimated.

In fact, we've now had an inquiry from Chinese television about doing "Startup China." But I want to do more Startup Tours in this country, too, for many summers to come. Even the tech and business media, for the most part, don't understand the details of these startup companies. I'm hoping the project may help America rediscover one of its own greatest strengths.

Just don't ask me to drive all the way next time!





# Typcasting the Entrepreneur

STEVE BLANK

Serial Entrepreneur and Author; Entrepreneurship Lecturer at U.C. Berkeley, Stanford University, and the Columbia University/Berkeley Joint Executive MBA Program

“Entrepreneur” has become one of those buzzwords (like “globalization”) that often means different things to different people. This is understandable, given that there are four distinct organizational paths for entrepreneurs: *small businesses*, *scalable startups*, *large companies*, and *nonprofits*. All of the individuals who start these organizations are “entrepreneurs,” yet those in one category often think the others aren’t “real” or “genuine.” The confusion can be compounded by the teaching of entrepreneurship in colleges and universities, where little distinction is drawn between the four types of entrepreneurs.

For budding entrepreneurs, the first order of business is to methodically think through which one of the four categories they want to be in. Once that decision has been reached, the proper tools can be selected, and the process of entrepreneurship can move ahead.

## *Small Business* Entrepreneurs: Hard-Working and Adaptable

My parents came to the United States through Ellis Island in steerage, and their biggest dream was to open a small grocery store on the Lower East Side of New York City, which they did in 1939. They didn’t aspire to open a chain of grocery stores—they just wanted to feed their family. They went on an uncharted course, took entrepreneurial

risk, and only made money if the business succeeded. The only capital available to them was their own savings and what they could borrow from relatives. They worked as hard as any Silicon Valley entrepreneur, but they had a different definition of a successful business model. When business was bad, they figured out why, adapted, and worked harder still. They were only accountable to one another.

Small business entrepreneurship is not designed for scale—like my parents, the owners want to “feed the family.” Small business entrepreneurs don’t become billionaires and (not coincidentally) don’t make many appearances on magazine covers. But in sheer numbers, they are infinitely more representative of “entrepreneurship” than entrepreneurs in other categories.

### *Scalable Startup Entrepreneurs: Born to Grow*

What scalable startup entrepreneurship lacks in numbers, it makes up for in publicity. Google, eBay, Facebook, YouTube, Twitter, Hotmail, and the like embody the high-flying technology-oriented companies that have become household names. Entrepreneurs who lead these startups typically start out knowing they want to build large companies—their interest is not so much in a salary but, rather, in equity in a company that eventually will become publicly traded or acquired, generating a multi-million-dollar payoff.

Consider CafePress. Its founders, Fred Durham and Maheesh Jain, had a vision of providing a home for artists who make personalized products assembled in a just-in-time factory that could deliver customized gifts. Once they found a profitable business model, they realized that scale required external venture capital to fuel rapid expansion. With venture capital came accountability to board members, forecasts, and other people’s agendas. But today, CafePress is a \$100+ million company, and its website receives 11 million unique visits each month.

### *Large Company Entrepreneurs: Innovate or Evaporate*

A fundamental challenge for large companies is how to preserve a culture of innovation. Failure can be costly—“innovate or evaporate,” as the saying goes—yet countless large companies choke off the spirit of enterprise as they grow. Western Union famously rejected Alexander Graham Bell’s invention, the telephone. An internal memo explained why: “This ‘telephone’ has too many shortcomings to be seriously considered as a means of communication.”

A counter-example comes from IBM. In 1980, the company decided to compete in the rapidly growing personal computer market. It was smart enough to realize that its existing processes and procedures wouldn’t be agile enough to innovate in this new market. The company established its new PC division in Boca Raton, Florida—1,000 miles from IBM headquarters. This small group consisted of twelve engineers and designers, and embodied the “skunkworks” approach to innovation—emphasizing flexibility, autonomy, and creativity. The division developed the IBM PC and announced it in less than a year. Three years later, the division had sold one million PCs, employed 9,500 people, and generated \$1 billion in sales. The division’s funding came from IBM and its head reported up the organization, but he was no less entrepreneurial than those who lead scalable startups or small businesses.

It’s thought that large company entrepreneurs have an advantage over small business entrepreneurs in that they start with an established infrastructure, and they face reduced cost pressures. That’s true—sometimes. But large company entrepreneurs also can face disadvantages; they may not be given the freedom they need to really innovate and pursue ideas that seem outlandish, like open-source software. (“People thought that was the dumbest idea they had ever heard because no one had ever done it before,” says Red Hat CEO Matthew Szulik.) Large company entrepreneurs also may face intense cost pressures if the accountants are calling the shots.

### *Nonprofit Entrepreneurs: Driven to Make a Difference*

Nonprofit entrepreneurs are no less ambitious, passionate, or driven to make an impact than any other type of founder is. They simply measure their success in terms of social goals rather than profit.

Consider Irfan Alam, a twenty-seven-year-old from the Indian state of Bihar. He started the Sammaan Foundation to transform the lives of ten million rickshaw-pullers in India. Irfan got banks to finance rickshaw-pullers and designed rickshaws that can shelve newspapers, mineral water bottles, and other essentials for rickshaw passengers. These rickshaws carry ads, and the pullers get 50 percent of the ad revenue (the remainder goes to Sammaan). The pullers end up as owners after repaying the bank loan in installments. The effort started with one hundred rickshaws in 2007—today, more than 300,000 are involved.

Irfan doesn't take a salary, but he is as focused as any Silicon Valley entrepreneur is on scalability, asset leverage, return on investment, and growth metrics.

Regardless of the type of business, an entrepreneur is at the helm of each one. As a rule, all entrepreneurs demonstrate the same basic traits, often rooted in their DNA: risk tolerance; tenacity; a willingness to work extremely hard, and to do so while charting an uncertain, oft-unmapped path to the entrepreneurial success they seek. Entrepreneurs have courage in all types of startups, whether they're foregoing a paycheck to feed the family or borrowing from mom and dad to found the next Google. Understanding the different kinds of entrepreneurial businesses is critical for policymakers, educators, and—most of all—entrepreneurs. Knowing the differences at a startup's outset will strengthen the entrepreneur and help unleash the job creation, wealth creation, and social progress that entrepreneurship delivers.



## The Decade of the Woman Entrepreneur

LESA MITCHELL

Vice President, Advancing Innovation, Ewing Marion Kauffman Foundation

An Interview with:

SHAHEROSE CHARANIA

Chief Executive Officer, Women 2.0

SHARON VOSMEK

Chief Executive Officer, Astia

*Women are at the helm of increasing numbers of U.S. businesses. They already have held a nearly three-to-two majority in undergraduate and graduate education, and, in 2010, for the first time, more women than men in the United States received doctoral degrees.*

*While the numbers of highly educated women who have the potential to start scalable ventures have reached record levels, these women are not pursuing entrepreneurship or being exposed to entrepreneurial possibilities through networking. At a time when the world needs high-growth entrepreneurs more than ever, the Kauffman Foundation has declared this to be the Decade of the Woman Entrepreneur to pursue opportunities that will inspire women to seek advisors, training, and networks that will help them unleash their potential and fundamentally change lives.*

*To discuss the needs of women entrepreneurs in the decade ahead, Lesa Mitchell of the Kauffman Foundation talked with two women who lead organizations specifically focused on providing entrepreneurial education and support for other women who have the potential to become high-growth entrepreneurs.*

**Mitchell:** Why do you think now is the time to make this the “Decade of the Woman Entrepreneur?”

**Charania:** It’s a good time to start a business, regardless of gender, so it’s an opportune time to encourage women to take the leap. Startup costs have

#### ABOUT SHAHEROSE CHARANIA

Shaherose Charania is perhaps best known as co-founder and CEO of Women 2.0, a network and incubator for women-led startups in Silicon Valley. She has seen more than 300 early-stage startups through Women 2.0, and has hosted monthly educational and networking seminars.

#### ABOUT SHARON VOSMEK

Sharon Vosmek leads Astia, which propels women as entrepreneurs in high-growth businesses, fueling innovation and driving economic growth. Founded in Silicon Valley in 1999, Astia helps female entrepreneurs access capital, grow their businesses, and hone leadership skills. Vosmek previously ran her own strategic consulting business, Vosmek & Associates, which focused on organizational change and growth of major corporations.

come down, and open source approaches enable individuals who don’t necessarily have an extensive technical background to become part of the entrepreneurial ecosystem. Despite the recession, funding is available and accessible, and, overall, the barriers to entrepreneurship are relatively low.

**Vosmek:** Women represent 51 percent of the nation’s Ph.D.s, 51 percent of business school applicants, and more than 70 percent of last year’s valedictorians. Women are well equipped to become entrepreneurs, and are primed to look at different ways of approaching challenges

to find better solutions. As a nation, we must make sure we tap into this supply of able business leaders.

**Mitchell:** Leaders at MIT would tell you a key reason MIT graduates have such a high level of entrepreneurship is that they have had so many experiential opportunities. How do you think we can increase women's awareness, at any stage, that entrepreneurship is an option?

**Vosmek:** This is an important question, especially in light of the fact that women are extremely entrepreneurial. Women are particularly underrepresented in the high-growth space. Why are women not finding their way there? I believe there are two reasons, as shown by research.

Number one, data out of the University of Wisconsin show that women self-assess differently than men do. This fact matters, particularly in the high-growth space, because we see women with fifteen years of industry experience fearful they're not qualified to start a company. That phenomenon really becomes a pain point for high-growth entrepreneurship, where women would be stepping out onto a limb to launch companies.

Second, Kauffman Foundation research shows that women use their networks differently than men do. This is where Astia has invested the last ten years in building out a community that will validate not only a woman's business opportunity, but also her skill set as it's matched to that opportunity.

Women, particularly those older than thirty, have a lack of cockiness, and I wish they had more of it.

**Mitchell:** Of the two items you list, which is most important?

**Vosmek:** Our experience tells us both are very closely linked. However, validation that female entrepreneurs are headed in the right direction is critical. Women, particularly those older than thirty, have a lack of cockiness, and I wish they had more of it.

**Charania:** Women tend to undervalue themselves and what they've accomplished. Rather than underselling themselves, female entrepreneurs need to own what they've done and become confident in making the sales pitch that correctly positions their high-level performance.

**Mitchell:** Some women have shied away from women's entrepreneurship organizations because they believe they should network only with men's groups. How do you respond to that?

**Charania:** We are trying to bring a new generation of female entrepreneurs into the early stage funnel of startups. Those who hide their networks or remain in only their existing networks are stifling the innovation ecosystem. What we are building is an open network—future founders, men and women; investors, men and women; resources and tools for all.

To engage experienced women, we take baby steps by starting with a low commitment. We may ask them to make a presentation or to serve as a mentor—just a few hours of their time. Before you know it, the desire to support is infectious.



**Vosmek:** The key to attracting women to advisory networks is to be very targeted in what we ask them to do. We explain what the startup does, what we're asking the advisor to do, and when the commitment will end. We have devised an ask that shows women how they can give their time very efficiently—that makes our network attractive.

**Charania:** Another practical approach is to align the call to support Women 2.0 with business objectives. The Women 2.0 community of future founders is a lucrative market! We are potential customers, or, for female investors, our community is a unique set of deal flow. I try to learn what a woman's personal or business goals are, and then try to align her donated time with us accordingly.

**Mitchell:** Do men and women respond differently to serving on the board of a women's organization?

**Vosmek:** Men on our Astia board of directors get kudos for being on the board of a woman's organization, and the women get harassed. Herein lies the difference. The men talk about the bragging rights they get for being on the board. The women talk about defending their commitment to the board not only to their immediate world, but also to themselves.

**Charania:** The fact that Women 2.0 has been so gender-balanced in our programs may be a reason I've been able to pull more people, men and women, successful entrepreneurs, and investors into our community. None has ever said they felt that Women 2.0 is a women's organization. Rather, Women 2.0 is clearly understood as a pre-incubator, a place for the next generation of entrepreneurs, a community that leverages diversity to fuel startup innovation.

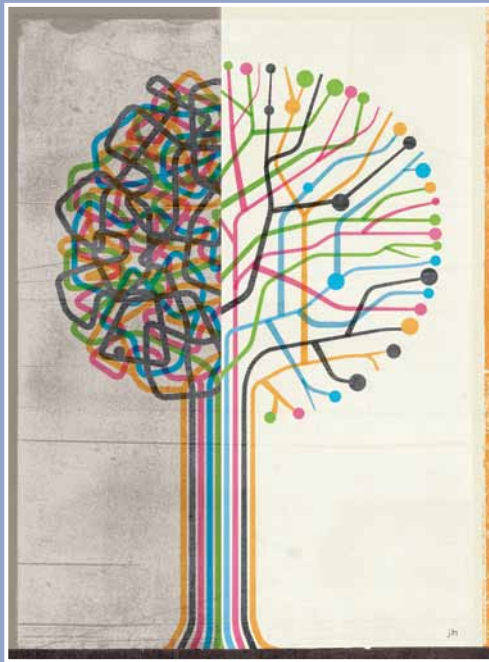
**Mitchell:** We spend a lot of time helping women understand the benefits of establishing for-profit companies. Now, changing directions a bit, what are the challenges in getting women to think big as entrepreneurs?

**Vosmek:** The first is inspirational. Women self-assess differently than men do and, according to the research, that pressure still proves to be a societal norm. Women are not going to aspire naturally to high-growth entrepreneurship. Organizations such as ours are going to have to inspire them.

The second is access to networks. Still today—in our society, and in Europe and India—men and women are in separate business networks, by and large. Because men still largely control capital, and women entrepreneurs need capital to succeed, they need men in their business networks. We have to break down network barriers and ensure men and women are working together.

I'm excited that all early research shows that women-led companies are out-performing their male counterparts for their investors. Innovation-related research shows that gender diversity is among the most important elements. We are finally at that tipping point, ready to say that men and women doing business together is the most effective means for creating jobs, growth, and wealth creation going forward.

# Cultivating Growth in Innovation





## Many Paths, Many Levers

### Innovating New Ways to Innovate

LESA MITCHELL

Vice President, Advancing Innovation, Ewing Marion Kauffman Foundation

In the United States, we spend billions every year funding scientific research in fields from medicine to energy. What we hope to get from that investment is not only discovery and invention, but innovation—a process that includes turning the products of our brainpower into actual new products on the market, to spur economic growth and improve our lives. However, in recent years, America’s vaunted innovation pipeline has been showing signs of breakdown. There appear to be multiple disconnects between our capacity for generating new knowledge and our ability to put it to use.

Since the late 1990s, for example, federal funding of research in the life sciences has more than doubled, yet the number of new drugs for medical treatment coming to market has shrunk by more than half. From 2006–’09, seventy-four new drugs won FDA approval, compared to 157 from 1996–’99. In the emerging cleantech industries, based on new technologies for generating and conserving energy, the United States has cutting-edge research, plus a venture capital industry eager to finance new firms in this space. Yet, other countries are far outpacing the United States in commercializing energy technologies.

Obviously, the recipe for better results is more complicated than “just add money.” To help identify the issues and catalyze new thinking, the Kauffman

Foundation launched a major initiative, called Advancing Innovation, in 2004, at a time when many still thought there were only minor problems on the innovation front. Today, the initiative is expanding greatly, both in terms of partners working with us and in terms of scope.

Our initial focus was on technology licensing offices (TLOs) at universities. These offices, charged with transferring new technologies from university labs to the private sector, often were seen as bottlenecks instead. Many individual TLOs tend to be overburdened, and numerous programs now are under way to improve the tech-transfer function by combining efforts and streamlining the process: They range from Kauffman's iBridge Network, a web-based platform for disseminating research technologies, to shared TLOs among the public universities in some states.

But a broader, systemic approach was needed. Innovation is more than a matter of handing off technologies. It is an elaborate human process that can be sharpened only by optimizing the entire ecosystem in which innovators of all kinds have to operate.

### Widening the Innovation Path

Current efforts are so wide-reaching that we can give you only a brief sample here. In one thrust, we and our partners are looking at new ways to support and incentivize the young researchers most likely to become tomorrow's innovators. Postdoctoral fellows and young tenure-track faculty represent much of our top up-and-coming research talent, but they seldom are encouraged to pursue commercialization of their research. They are channeled into a more strictly "academic" research path, rewarded for publishing their findings—and for then winning still more research grants. Our Kauffman Labs Entrepreneur Postdoctoral Fellowship Program, which we launched in 2009, was aimed at postdocs interested

in practical application of their work (read a profile about the work of one postdoc fellow on page 101), and others are prodding universities to give more credit to such activity in tenure decisions.

We also are working to build more interfaces and collaborations between universities and private industry. The present system mainly allows for two formal modes of interface: industry

sponsorship of research, and the licensing out of university technologies. That is a very limited view. Innovation works best when it can travel by many paths from one sector to another, and when the exchange of information is constant.

Innovation works best when it can travel by many paths from one sector to another, and when the exchange of information is constant.

Last, but not least, we and our partners now are looking seriously at the public-policy aspects of innovation. Many policy barriers have arisen over the years, and many policy levers that might increase the flow of innovation haven't been tried.

For example: Huge amounts of biomedical research have been federally funded across hundreds of institutions, with no provision for building widely shared "open-source" tissue banks that other researchers could use and learn from. People talk about the tragedy of the commons; this is a failure to create a scientific commons that could greatly advance the search for treatments that have long eluded us.

Innovation in energy, meanwhile, could benefit from a "roadmap" approach like that taken years ago for semiconductors. The government and the semiconductor industry partnered to map out key new enabling technologies that would be needed by many firms in the years ahead, and formed consortia to support research in those areas. Applying this model to energy would be similar to

specifying open tissue- and data-sharing in the medical space, in that both would be cases of supporting much-needed precompetitive R&D.

When precompetitive work is done widely, the glass of innovation is half full. It's then easier for individual firms and institutions to pursue a variety of completion paths. We Americans have drifted away from this approach; we are more apt to fight for competitive advantage from the very bottom of the glass, by measures such as gene patenting. So, perhaps the virtues of "precompetitive advantage" need to be explored anew.

Another area of need is helping emergent innovations to cross the proverbial valley of death, between the point where research funding ends and the point where the innovation is well developed enough to attract private financing. Small Business Innovation Research grants are one good mechanism for crossing this valley, but we need more, such as the proof-of-concept centers now operating at some universities for development work that "bridges the innovation gap." Also, in medicine, every new drug has to cross the dire valley of clinical trials. The trials are necessary for testing the efficacy and safety of drugs, but they could probably be structured so they don't consume most of the cost of drug development, as at present.

Many levers, many paths. In an era when so much is changing in science and industry worldwide, it shouldn't be surprising that much of the American innovation system needs to be re-thought or rebuilt. This is, in fact, an exciting time. Growing numbers of us are engaged in meta-innovation: innovating new ways to innovate. The opportunities are tremendous.

In the essays that follow, some of the country's leading meta-innovators share what they are thinking—and doing. U.S. Secretary of Commerce Gary Locke

highlights his recommendations for enhancing innovation in America. We preview the making of the “Personalized Health Manifesto,” and we feature an essay that explains how U.S. innovation policy needs to recognize entrepreneurs’ role in generating clean technology business models. You also will read about how the complexity of today’s world presents limitless opportunities for innovators, and we present a new tool for expediting university innovations that we hope will inspire other universities to follow suit.





## Fostering the Conditions to Reinvigorate Entrepreneurship and Innovation in the United States

GARY LOCKE

U.S. Secretary of Commerce

Successful relationships among entrepreneurs, innovators, universities, and government have never been more important to the economic success of America. By working together through public-private partnerships and other means of collaboration, we can help create the conditions necessary to promote the innovation and entrepreneurship needed for sustained economic growth and job creation.

What's certain is that, in these tough economic times, we can't simply continue to do what we've done in the past and cross our fingers that things will get better. Consider that, during the height of the recent crisis, the economy was losing an average of three-quarters of a million jobs a month.

That number speaks to the profound damage done to the economy and the American people during the recession. And, it's important to understand that, while the worst of the economic calamity may have been recent, it was years in the making.

From 2001–2007, America experienced the slowest job growth of any period of economic expansion since World War II. What growth we did see largely was

built on the shaky foundation of real estate speculation and consumer debt. Middle-class families saw their wages flatline for a decade while the cost of things like tuition and health care continued their rapid climb.

Fortunately, the worst-case scenarios many were predicting in early 2009 never came to pass, in large part because of the aggressive steps the president and leaders in Congress took to stabilize the financial system and create demand in our economy when local governments, consumers, and businesses couldn't or wouldn't spend.

With history as a guide, today's entrepreneurs will capitalize on innovation and create opportunities derived from technological change.

As America continues to work through these exceptionally trying times, we can reflect on our past and say with confidence that we will get through it—and when we do, entrepreneurs and innovators will be leading the charge.

A Kauffman Foundation study indicated that more than half of the companies on the 2009 Fortune 500 list were launched during a recession or bear market. With history as a guide, today's entrepreneurs will capitalize on innovation and create opportunities derived from technological change.

Entrepreneurs and the innovations they bring to market also produce high-paying jobs. Average compensation per employee in innovation-intensive sectors increased 50 percent between 1990 and 2007—nearly two-and-one-half times the national average.

But, to make the most of the emerging opportunities that change brings, we must acknowledge that America's innovation engine is not as efficient or as effective

as it needs to be. Neither is the national ecosystem for high-growth, innovation-based entrepreneurship as expansive as it should be.

The Commerce Department is in an ideal position to help. It touches entrepreneurs on all points in the continuum—from the development of innovative concepts through the global growth of entrepreneurial firms. We pursue all of these initiatives with partners who are passionate and committed to their success.

Like our partners, I am determined to help foster the right environment for private-sector investment and competitive markets. Improving commercialization, i.e., the process by which the fruits of research enter the marketplace, is one of my highest priorities at the Commerce Department. How well the United States moves ideas out of research labs and into the marketplace will determine whether we remain one of the most competitive and vibrant economies in the world. Here, too, entrepreneurs and innovators, including those at America's universities, will lead the way.

To that end, in September 2009, I created the Office of Innovation and Entrepreneurship at Commerce to drive policies that will help entrepreneurs translate new ideas, products, and services into economic growth.

My department also initiated the i6 Challenge. In partnership with the National Institutes of Health and the National Science Foundation, this multi-million-dollar competition funds teams of organizations across the nation that provide groundbreaking approaches and solutions for driving technology commercialization and entrepreneurship in their regions.

Although I believe this administration has a valuable role to play in promoting entrepreneurship and the commercialization of new technologies, we don't have all the answers. So, we rely on the best possible counsel. This is why I also have

convened the National Advisory Council on Innovation and Entrepreneurship. One of my goals with this group is to solicit its members' analyses and recommendations on where and how we can do better in areas surrounding innovation and entrepreneurship. These experts provide me with guidance on whether we are on the right track. We are working together to conceive, debate, and recommend the strategies our nation needs to support high-growth, innovation-based entrepreneurs, turn dreams into innovations, and create the jobs that will keep America great for decades to come.

The economic downturn has provided us with an opportunity for reflection. It has allowed us to clearly identify what is working and what we need to do better. And it has helped focus our energies on the priorities that should have received more attention before the financial crisis.

America is not lacking for groundbreaking ideas, and we're not short on entrepreneurs willing to take risks. Moreover, we know that, when you get businesses, government, academia, and nonprofits together, pulling toward similar goals, good things happen.

But, as a nation, we must continually reinvigorate our entrepreneurial ecosystems, adapt to ever-changing global challenges, and expand our innovative capacity. Recent initiatives within the Commerce Department and across the federal government show a commitment to doing just that. But it is only by working together and holding each other accountable that we can be truly successful.



## The Making of the Personal Health Manifesto

A call for the medical community to support reforms for the rapid adoption of new scientific breakthroughs in personalized health

DAVID EWING DUNCAN

Director, Center for Life Science Policy, University of California at Berkeley; Author of *Experimental Man: What one man's body reveals about his future, your health, and our toxic world*

Modern society is on the cusp of a vital new era of health care, one in which medicine will shift from primarily addressing illness to a greater emphasis on prediction and prevention, improved diagnosis, and on individualized care. This historic transformation comes from a deepening understanding of biology and new technologies, and a rising demand for individuals to understand and take charge of their own health.

The promise of this new era of medicine is for healthy people to get a personal snapshot of their bodies—organs, cells, DNA, proteins, and a whole molecular universe of other tiny structures—cross-referenced with environmental input. Indeed, changes in diet and lifestyle, in medications, and in other treatments will be tailored to an individual's specific profile.

In fifteen to twenty years, a visit to the doctor will provide a profile of a person's entire body, which will reveal hundreds or thousands of bits of data—all of which can be seamlessly integrated by a computer into a health scorecard. Eventually,

this information may be downloaded onto handheld devices—perhaps a modified iPhone or Droid loaded with personalized health apps—that will contain detailed information about our physiology, genetic proclivities, and safe scans of our brain and body. The device will input real-time environmental data about what we are exposed to as we walk around, eat, and work: levels of mercury and benzene, say, and exposure to UV rays.

This personal stream of information will be referenced against massive global databases to come up with a constant and dynamic assessment of not only a person's health status, but also risk factors for health and disease based on choices in diet, medications, procedures, and lifestyle.

But turning this vision into an everyday reality depends on overcoming a number of obstacles.

First, the U.S. health care system is dominated by one-size-fits-all medicine, in which care is focused on diagnosing and treating disease, and drugs and protocols are focused more on averages and populations than on individuals. A small but illuminating example: Cholesterol scores are treated the same by physicians, even though the significance of the scores depends on an individual's genetics and physiology.

Second, despite almost \$1 *trillion* of spending on life science research and development in the public and the private sectors this decade (twice the amount spent in the 1990s), there has been a sharp decline in the number of drugs approved by the U.S. Food and Drug Administration—from a peak of fifty-three in 1996 to an average of twenty-one a year between 2005 and 2009. One reason for this unexpected outcome is a failure of biomedicine to translate the

unprecedented discoveries in basic research into drugs and other products, and the resistance of new technologies such as genomics in the clinic.

Third, the medical system today invests considerable time and resources on basic research and on creating an ever-more-specialized phalanx of experts. While this research has produced critical insights into human health and disease that has made this burgeoning age of personalized health possible, there is also a downside.

The research has encouraged a parsing of knowledge and a silo effect that has made it difficult to integrate discoveries into a systems and holistic approach that is necessary for translating findings into real-life applications.

To mobilize support for reforms and for the rapid adoption of new scientific breakthroughs in personalized health, luminaries in the life science field have signed a “Personalized Health Manifesto.”

“Scientists are so caught up in doing the best science that they are failing to translate that science into anything useful,” said Intel CEO and Parkinson’s disease activist Andy Grove.

To mobilize support for reforms and for the rapid adoption of new scientific breakthroughs in personalized health, luminaries in the life science field have signed a “Personalized Health Manifesto.” It calls on the biomedical community, policymakers, patients, and society to:

- Understand and acknowledge that this new era of prediction, prevention, and personalized health is upon us, and to promote philosophical and structural changes to optimize its timely adoption;

- Promote a new system of health care that emphasizes the whole human organism as much as its parts, and individual patients as much as populations;
- Restore a balance between reductionist and specialized science, and the need to integrate discoveries into systems and larger trends; and
- Create a comprehensive and dynamic plan to develop and implement a new life science paradigm focused on personalized health.

An important consideration for this new age of personalized health is to use new discoveries and protocols to not only improve health, but also to reduce medical costs. Eventually, the hope is that personalized health technologies will be available globally, in both the developing world and developed countries.

Shifting to a health care paradigm that embraces healthy wellness and personalized health is a formidable challenge, one that will take many years. In the meantime, the goal is to use all the available tools to promote predictive and preventive health for people before they get sick, and then to use science to target disease when it comes. The end result will be people living longer and healthier lives around the world.

To read the entire "Personalized Health Manifesto," go to [www.kauffman.org/manifesto](http://www.kauffman.org/manifesto).





# Policy Levers for Fostering Innovation and Entrepreneurship in Clean Technology

ANDREW HARGADON, Ph.D.

Senior Fellow, Ewing Marion Kauffman Foundation; Charles J. Soderquist Chair in Entrepreneurship and Professor of Technology Management at the Graduate School of Management at the University of California, Davis

Policies aimed at spurring a clean technology revolution show little understanding of the innovation process, how it drives technological change, and how it builds on, as much as builds, new markets.

“Clean technology” describes renewable energies like wind, solar, and nuclear; energy efficiency; environmentally sustainable materials and manufacturing processes; carbon capture and sequestration; and water and waste treatment. Clean technology innovation aspires to provide solutions for climate change, global energy security, environmental health, and economic growth.

## The Need for Process-Focused Innovation Policies

Current approaches to fostering clean technology innovation focus on the supply side, generating new technologies, or on the demand side, attempting to put a market price on clean technologies (e.g., carbon). Done well, these policies have clear benefits. But they are not always effective in practice and, worse, their implementation often is financially and politically costly—preventing more effective policies from being considered or attempted.

Federal R&D spending has produced alternative technologies (inventions), but none has enjoyed broad market adoption (innovations). So, while policies focus on manipulating either the supply or demand side of clean technology innovation, they neglect the innovation process, where supply and demand come together. To describe this neglect, I posit several basic truths about innovation, and explore their implications for a clean technology revolution.

First, innovation includes both the development *and* widespread adoption of new technologies and practices. R&D investment does not guarantee success. Most promising technologies never make it out of the lab. Those that do typically take decades to become broadly adopted—the light bulb, the automobile, and the Internet all took roughly thirty years

before being embraced by the market.

Intermediate goals, especially those that benefit specific interest groups, distort policy by neglecting both the long path to market and the value of each step.

Teddy Roosevelt warned that the

impossible better is forever the enemy of

the possible good. Pursuing the next generation of laboratory breakthroughs—the impossible better—undermines commitments to putting current alternatives into practice. The United States spent the 1970s fruitlessly looking for breakthroughs in wind technology; meanwhile, Danish companies put current technologies into practice and created the modern wind power industry. Today's solar and wind markets remain marginal—less than 0.1 percent and 1 percent, respectively, of the total U.S. energy market—and wholly dependent on inconsistent incentives for their growth.

While policies focus on manipulating either the supply or demand side of clean technology innovation, they neglect the innovation process, where supply and demand come together.

Second, innovation depends as much on new business models as on new technologies. As innovation scholar Clayton Christenson notes, disruptive innovations typically underperform existing technologies on *traditional* terms and only gain market acceptance by defining new performance terms. New business models break the traditional relationships between offerings, customers, and market structures, enabling emerging technologies to compete on their strengths.

The automobile remained a hobbyist's market until Ford Motor Company changed its business model to build a car for the masses. Over the next seven years, from 1907–1914, this new business model drove technological innovations that, together, culminated in Ford's system of mass production.

The incandescent light was around for forty years, claiming a small market for independent and isolated systems, until Thomas Edison introduced the now-dominant utility model. In the early days, electric lighting could not compete on cost with gas; Edison's model enabled it to compete instead on safety, convenience, and (ultimately) a broader platform of other applications and appliances.

Today's extensive local, state, and federal energy market regulations inhibit, if not outright prevent, new business models from emerging. Solar power, for example, today competes as small-scale rooftop systems or as utility-scale plants, but is effectively prevented from exploring new business models in the vast middle ground between 100 kW and 20 MW. Similar barriers prevent development of micro-grid power systems. Unless new energy technologies can define new performance terms, they cannot compete with existing technologies' commodity pricing, production, and distribution.

Third, new business models tend to come from startups and the entrepreneurs who lead them. Incumbent firms drive incremental innovations that fit within their existing business models. By definition, incremental innovations are less risky, make better use of an incumbent's sunk costs in manufacturing, displace older

technologies at a comparable scale, and work within the existing organization and industrial structures. Radical innovations, also by definition, do not.

In many ways, we depend on small firms to identify and initially develop wholly new technological pathways. Entrepreneurs can organize *de novo* around an emerging technology's unique strengths. Indeed, because most startups' primary goal is finding and proving a new business model *before* scaling, startups are perhaps the most cost-effective way to explore new clean technology innovation business models.

Fourth, innovations' biggest productivity growth and impact come after new technologies are put into practice.

The market validation of new business models, technology platforms, and market needs spur investment in complementary innovations up and down the new supply chain. Until this happens, the next wave of researchers, investors, and other entrepreneurs waits on the sidelines.

Startups are perhaps the most cost-effective way to explore new clean technology innovation business models.

In the two decades following the establishment of the electric industry, for example, entrepreneurs drove exponential productivity growth and cost reductions across energy generation (advanced steam turbines), distribution (alternating current), and use (electric motors in manufacturing). Moore's law, which projects the doubling of transistors every couple of years, reflects the combined effect of these efforts.

### Commitment-driven Innovation

In short, U.S. innovation policy needs to recognize and support entrepreneurs' critical role in generating (and validating) the new business models that will ensure

emerging clean technologies gain a market foothold, and in the next wave of entrepreneurs who will innovate, in both production and use, the new technologies.

Policies that enable the small-scale demonstration of viable new business models would be more effective than large-scale demonstrations of unprofitable technologies. Policies that remove regulatory barriers, if only as experiments, would open the exploration of such business models. And policies that create certainty—within niche markets—will support the emergence of new companies committed to innovate along the emerging supply chain.



## Innovation that Matters

NICHOLAS M. DONOFRIO

Senior Fellow, Ewing Marion Kauffman Foundation; Retired Executive Vice President of Innovation and Technology, IBM

The very nature of innovation is changing—I believe it already has changed, but most of us have not yet realized it or caught up.

The information technology sector—where I spent my whole career—offers a perfect case-in-point. For literally decades, innovation in IT meant mostly hardware improvements, which meant, above all, speed and power. How many calculations per second do you get for a fixed amount of money? Progress was prodigious for many years. Choose an arbitrary, round number—say, \$1,000—and then look at what it could buy over time. Over one hundred years, the purchasing power of that \$1,000 increased by sixteen orders of magnitude. That's ten to the sixteenth power more calculations per second for that thousand bucks over a hundred years. A thousand dollars today buys a whole lot of productivity.

Or does it? Certainly it buys sheer power. But how much sheer power do we need? How many calculations per second does the average user, or the average business, really need to do? How much memory do we need? How much storage? We've crossed the terabyte threshold. How many of us can fill a one-terabyte hard drive? How many of us really need ten? Some of us already have five million pixels of visible capability. Do we need ten? Maybe the clock speed of your processor already runs at five gigahertz. Does it have to go ten?

This is not to dismiss the importance of technological advance or to scold users who want or need more power. But it is to suggest that we begin to ask ourselves about the possibility of diminishing returns. “More” was a successful business strategy for a lot of IT companies for a long time. More speed, more power, more storage, more of everything. Developers didn’t ask what it was for. They didn’t need to. All their customers wanted “more” and that want translated into sales.

Some of that want was rational. Growing businesses needed more power. More speed meant more efficiency. More storage meant quicker access to a growing cache of records. But there was also an element of keeping up with the IT Joneses. The CEO had to have the smallest laptop with the fastest processor. Senior managers had to have better machines than middle managers. Company X had to have more advanced systems than Competitor Y.

That impetus for buying is mostly played out—which means it’s also finished as an impetus for innovation. Technology, by itself, is no longer the necessary and sufficient condition for success. Some companies had to learn this the hard way. IBM, where I worked for forty-four years, had to undergo a near-death experience to understand that times—and needs and wants—had changed.

### Finding What Matters

Today, the innovation that matters is not the latest result of Moore’s Law, or doubling RAM, or tripling pixels. Those things still matter, but they matter much, much less. And, as innovations, they are old hat—merely the continued refinement and improvement of yesterday’s breakthroughs.

The innovation that matters now—the innovation that we’re all waiting for, even if we don’t know it—is the one that unlocks the hidden value that exists at

the intersection of deep knowledge of a problem and intimate knowledge of a market, combined with *your* knowledge, your technology, and your capability ... whoever *you* are, whatever you can do, whatever you bring to the table.

This may seem mysterious. Let me explain it this way. The microchip was an innovation—a fundamental, technological innovation. Chips keep getting better by the year. Is every new one an innovation? Perhaps, of a limited sort, but not in a fundamental way like the first one.

The personal computer was an innovation, not in some technical league; rather, it was the transformational application of existing technology to a new market for new uses. Operating systems like the one that ran the early Macintoshes, and later Microsoft Windows, were innovations—ones that fundamentally changed not just existing technology but existing products and markets, by revolutionizing the user experience.

Innovations can arise from fresh thinking in any number of areas: from product to service to process to business model.

There already have been several decades of this type of innovation—and some very successful recent examples. Think of the iPhone. Steve Jobs didn't invent the phone or the cell phone or the handheld computer. But he put them all together into one attractive, easy-to-use, engaging package. Whether a die-hard techie admits it or not, that's innovation!

Yet, too many people still think of innovation solely in terms of a wholly new product or technological breakthrough. This is limiting, and it is false. Innovations can arise from fresh thinking in any number of areas: from product to service to process to business model. Michael Dell built a Fortune 500 company by changing the way computers are built and sold—but not changing anything about the device itself.



All of these things unlocked hidden value. It turned out that a more user-friendly interface than typing in the clumsy, unattractive DOS prompt drew people into computing and changed the way business is done and lives are lived. Thank Bill Gates. It turned out that people really wanted a multi-functional mobile phone with great design and were willing to pay for it. The design genius is what Steve Jobs brought to the table. It turned out that people wanted to buy computers directly, choosing for themselves the features they did, and did not, want. Michael Dell proved that.

These innovations not only created billions in wealth and probably millions of jobs—they increased our productivity, saved us time, connected us to new people and products, and enriched our lives. Before they existed, we didn't know we needed them and we certainly didn't want them. Now we can't live without them.

### Limitless Opportunities for Innovation

The good news for innovators and potential innovators is that, given the incredible complexity and diversity of the world today, opportunities for innovation abound. As confused as you think the world is, it's great for innovators. There are so many problems—some known and some yet to come to light—that opportunities for innovation will never run out. But we have to take a new approach: Start from the problem, not the solution. That is, we no longer can say to ourselves, "The end product is 5 GHz" (or whatever). Rather, we must ask ourselves, "What needs to change?" and then—and only then—start thinking about how to change it. The question of what specific invention or product or innovation to pursue comes after that.

The kind of people who best will be able to seize these opportunities are those I call "T-shaped" as opposed to "I-shaped." I-shaped people have great credentials,

great educations, and deep knowledge—deep but narrow. The geniuses who win Nobel prizes are “I-shaped,” as are most of the best engineers and scientists. But the revolutionaries who have driven most recent innovation and who will drive nearly all of it in the future are “T-shaped.” That is, they have their specialties—areas of deep expertise—but on top of that they boast a solid breadth, an umbrella if you will, of wide-ranging knowledge and interests. It is the ability to work in an interdisciplinary fashion and to see how different ideas, sectors, people, and markets connect. But even the most brilliant “T” will find it difficult, and perhaps impossible, to innovate entirely on his or her own.

### Inevitable Trends

I believe that two inexorable trends follow from this fact. First, nearly all future innovation will be collaborative. Whether it emerges from huge corporations or the smallest businesses, from century-old institutions or the latest startups, innovation will be the product of collaborative, global, and multi-disciplined processes. This trend is already under way, but it will intensify. The lone scientist or engineer in a lab will still play a role, but he will be an outlier. People you’ve never heard of and never will emerge with the keys to whatever puzzle you are trying to solve. You may know a great deal, but so do they—and they know many things that you don’t know but need to. You need them.

Which means you will have to include them, and which brings me to my

second point, one that will be especially hard for IT people to accept, given their reverence for the sanctity of intellectual property. We inevitably are going to move toward more open standards. There is no other way. Tight-knit circles, secrecy, and firewalls keep out the knowledge that will be needed to devise

We inevitably are going to move toward more open standards. There is no other way.

solutions and make them work. This is not to say that all innovation going forward is going to be freeware—far from it. But the old model of IP protection doesn't fit the future. And that in itself is a problem to be solved requiring—innovation.

To thrive in this new world, the “I's” are going to have to transform themselves into “T's.” And we're all going to have to work together more so than we ever have done before.



## Expediting University Startups

### A Step Toward Advancing America's Prosperity

JOSEPH M. DESIMONE, Ph.D.

Chancellor's Eminent Professor of Chemistry, University of North Carolina at Chapel Hill;

William R. Kenan, Jr. Distinguished Professor of Chemical Engineering, North Carolina State University

Our nation's universities produce some of the most important basic and applied research in the world, contributing to America's competitiveness and prosperity in the global economy. University spinoff companies have the potential to become high-growth firms, in some cases creating entire new industries that not only change our lives but also generate hundreds of thousands of jobs—one need only think of game-changers like Netscape, Google, Cadence, and A123 Systems to understand the significance of these firms. Yet, there is evidence that restrictions at academic institutions themselves are slowing the diffusion of new technologies.

With approximately 60 percent of the nearly \$150 billion federal R&D budget funneled directly to university labs, the Obama administration, too, recognizes that it is imperative that academic innovation finds a more streamlined path to the marketplace. Despite this support, however, successful commercialization of new knowledge remains inconsistent. In a recent speech to the National Academies of Science, Commerce Secretary Gary Locke acknowledged that "America's innovation ecosystem isn't as efficient or as effective as it needs to be," and he warned that "the United States cannot afford to merely fund research and say a prayer that some entrepreneur will commercialize it down the road."

To maximize the potential for economic growth, academic institutions must seek new opportunities to reduce lag time in harvesting discoveries and expedite their translation into the private sector. Fortunately, there are universities beginning to do just that. A few commercialization pioneers are on the forefront of creating new models for expediting university startups across the country.

### The Carolina Express License Agreement: A Groundbreaking Model

The University of North Carolina at Chapel Hill has broken with traditional approaches to commercializing research by establishing a pre-negotiated set of terms that faculty may choose when launching companies. Acceptance of these terms promises a three-week approval process. Traditionally, universities channel commercialization of intellectual property through centralized technology licensing procedures established following the passage of the Bayh-Dole Act of 1980, which granted academic institutions the rights to IP stemming from federal support. Licensing arrangements for university research often can be complex, sometimes requiring elaborate negotiations between researchers, universities, and private-sector partners that can lead to bottlenecks that delay progress or deter entrepreneurs from even attempting the process. UNC has found a way to circumvent this costly and cumbersome impediment to progress with the Carolina Express License Agreement, which comprises a simplified set of terms that can facilitate widely divergent deals that bypass lengthy negotiations.

The Carolina Express License Agreement is transformative to those familiar with the intricacies and redundancies of the university licensing process. As an example, the agreement offers a 1 percent royalty on products requiring FDA approval based on human clinical trials, a 2 percent royalty on all other products, and cash payout equal to 0.75 percent of the company's fair market value in the event that the company is involved in a merger, stock sale, asset sale, or IPO.

## Carolina Express Advances Startup's Development

Bacteria have responded to antibiotics—many of which kill the bugs by damaging their DNA—by evolving resistance to the drugs. The resulting decline in the power of antibiotics poses a worldwide threat.

A new company, however, hopes to reverse the challenge to antibiotics' effectiveness. Based on research by **Scott Singleton, Ph.D.**, associate professor at the University of North Carolina Eshelman School of Pharmacy, Synereca Pharmaceuticals was established with the goal of developing drugs that inhibit RecA, the enzyme that allows bacteria to repair injury to their DNA.



"The waning power of antibiotics is not only addressed by new antibiotics, but also by drugs that make existing antibiotics more powerful and refractory to the development of bacterial resistance," Singleton said.

Synereca, which Singleton created in fall 2009, wanted to license his research. The company contacted the University of North Carolina Office of Technology Development, prepared to begin the usually arduous negotiating process. That's when Singleton was introduced to UNC's Carolina Express License Agreement, a program that was being designed to speed the process of starting a company that would leverage technology developed at the university.

Carolina Express came about through UNC's existing intellectual climate, coupled with an entrepreneurial mindset that has infused the campus over the last few years. Ultimately, Synereca became the first company to sign a licensing agreement using the program.

"Typically, when an outside company is interested in developing a discovery from the lab, the academic researcher first must determine who to talk to at

the university, then must undertake the process of educating himself, and then must complete a lengthy legal process that finally allows the company to use the technology," Singleton said. "I had been through that before. It took months and months. The process has been anathema to academics."

Carolina Express, however, promised to simplify and shorten the process. Its standard set of terms minimized the negotiating and legal processes, *allowing Synereca to receive its license in less than one business week*. The negotiating process, Singleton said, was "dead simple," and the terms are favorable for both the company and the University. As part of the process, UNC also filed a patent to protect Singleton's intellectual property.

Synereca's technology license allows the startup company to explore, at an early stage, whether the RecA research has potential to offer long-term value to the public. Working freely in the investigation space—knowing its intellectual property is protected by the patent application the University filed—establishes a favorable scenario for Synereca and Singleton to collaborate and facilitate the technology's development.

Carolina Express is the first program in the country that lowers the barrier for academics to commercialize their discoveries. Singleton hopes other universities will follow suit, encouraging university-based researchers to consider commercializing their technology, reducing licensing obstacles and, ultimately, empowering entrepreneurship.

"I look at Carolina Express as an important step in developing this sphere of entrepreneurship—taking academic ideas and devices, and making them publicly available to do good," Singleton said.

"Carolina Express will help to change the academic mindset that it's possible to achieve this."

The license includes provisions that encourage broad commercialization of the licensed technology, including making products available for humanitarian purposes in developing countries.

Moreover, the new stance offered by UNC is designed to foster a collaborative spirit between the Office of Technology Development and the faculty involved in the process. This avoids pitting the university against the faculty member in a competitive negotiation. Such a program supports the faculty's entrepreneurial efforts, which will encourage serial entrepreneurs and likely result in an increase in entrepreneurial newcomers. This is a focus on deal flow for UNC that simultaneously establishes a fair deal for all parties involved.

Widespread adoption of the standard agreements promises to expedite the movement of ideas from the laboratory to the marketplace. It also is consistent with the Obama administration's "Strategy for American Innovation," which envisions enhanced investment in R&D, education, and our infrastructure in order to spur entrepreneurship and catalyze breakthrough technologies that address the "grand challenges" of the twenty-first century.

Sec. Locke has asked how the nation can find ways to make it easier to connect entrepreneurs and other business builders with ideas coming out of university research labs. The Carolina Express License Agreement is one answer. We challenge other universities to follow UNC's lead by developing new, innovative tools and pathways to accelerate the formation of university startups and maintain American competitiveness.

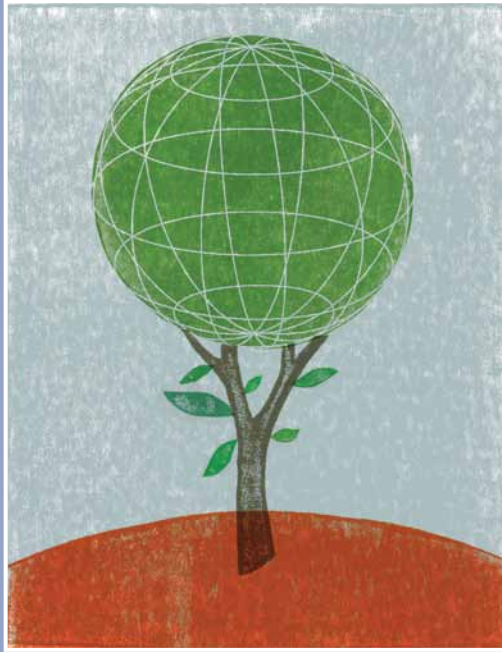
## Spotlighting Creative University Approaches to Commercialization

UNC is just one example of how universities are finding new ways to advance innovations to the marketplace. The Kauffman Foundation created the “Kauffman Commercialization Leaders” award to spotlight universities that are accelerating the commercialization process for faculty and students. In addition to UNC, the inaugural award went to Carnegie Mellon University and the University of Missouri System. By recognizing these superstar role models, Kauffman hopes other universities will be inspired to innovate or imitate these examples.





# Growing Globally



## Entrepreneurship Takes Root on the Global Stage

More than at any previous time in history, entrepreneurship appears to be taking its rightful place on the world stage as central to any nation's efforts to build its economy. A plethora of grassroots organizations across the globe are vying for funding to grow and expand entrepreneurial efforts to meet demand for entrepreneurship's economic benefits. Nations once hostile to individualism, such as Venezuela, Russia, and Ecuador, are welcoming new, innovative startups.

There is hardly an economic leader across the globe not eager to unleash entrepreneurial potential as a source of new growth. Just look at the expanding embrace of the Kauffman Foundation's annual Global Entrepreneurship Week, the worldwide celebration of entrepreneurship and innovation. GEW has grown exponentially since its inaugural event in 2008. In 2010, more than 10 million people from 112 countries took part in an estimated 40,000 events. GEW brings together aspiring and inspiring entrepreneurs through local, national, and global activities to help them develop knowledge, skills, and networks so they can grow sustainable enterprises. We feature observations on page 155 from some of the dedicated partners who share what the Week means to their organizations and their countries.

Another case in point: When a U.S. president convenes a Presidential Summit on Entrepreneurship that draws over 200 leaders from more than fifty countries

on five continents, policymakers outside the United States cannot help but take a hard look at entrepreneurial capitalism and examine how entrepreneur-friendly their economies are back home.

President Obama's 2010 Summit on Entrepreneurship, organized by Secretary of State Hillary Rodham Clinton and Secretary of Commerce Gary Locke, was designed to promote entrepreneurship in Africa, the Middle East, and Asia as a tool for economic and development policy. The Kauffman Foundation hosted the delegates at the opening reception and pledged support for the U.S. State Department's efforts to tap American talent in helping other economies capitalize on their new entrepreneurs in creating jobs and new economic growth. On page 159, you can read more about how the State Department is exporting entrepreneurship to other nations as a key component of U.S. foreign policy.

Global Entrepreneurship Week and the Presidential Summit represent examples of a growing global shift toward making entrepreneurship the core focus of economic policies and programs. Another inspiring example is in an essay that follows that tells the story of how one entrepreneur is helping to transform Indonesia into an entrepreneurial nation through education programs.

You also will read an interview with the founder of a global entrepreneurship education model that is redefining the role of venture capital and incubators, and transcending geography to help startups succeed anywhere in the world.

It is the Kauffman Foundation's hope that the stories that follow offer inspiration and encouragement for anyone who wants to make a difference, create a job, unleash an idea, or strengthen an economy wherever they live on the planet.

# The Power of Global Entrepreneurship Week

*Every November, Global Entrepreneurship Week brings together millions of aspiring and inspiring entrepreneurs to celebrate innovation and creativity through tens of thousands of activities in more than one hundred countries. Founded by the Kauffman Foundation, GEW has been embraced by some 40,000 organizations worldwide. Following are thoughts expressed by leaders of just some of those organizations that participate in building economies and improving lives through GEW.*



## - The Power of Global Entrepreneurship Week -

"Global Entrepreneurship Week is one of those big ideas that gives us an opportunity to show the world the power of entrepreneurial training for high school students. We had an opportunity during Global Entrepreneurship Week to have students in a Baltimore classroom talk to students in a classroom in Ireland about the process of developing their first business plans. It was a compelling exchange. The message for the week is always about education, and inspiration, and networking."

Amy Rosen, president and chief executive officer,  
Network for Teaching Entrepreneurship

"We are committed to fostering entrepreneurship and innovation in Chile. We have set a very ambitious target of transforming Chile into a developed country during this decade. To get to that end, we have to promote productivity, innovation, and entrepreneurship."

Juan Andres Foraine, minister of economy, Chile

"Entrepreneurship is not a done deal. Rather, it is a lively and living issue. We are convinced that if we're able to inspire and channel the entrepreneurship in our communities in the right ways, and talk authentically about what entrepreneurship means, we can do greater things than we ever imagined possible."

Alfa Demmellash, chief executive officer and co-founder,  
Rising Tide Capital

"Global Entrepreneurship Week is a worldwide initiative aimed at awakening, stimulating, and motivating the entrepreneurial spirit, creativity, and capacity for innovation, especially among younger generations. Entrepreneurship has, as a result, new reasons to be considered the cornerstone of countries' economic and social progress."

Anibal Cavaco Silva, president, Portugal



FAR LEFT, Preparations for the closing night celebration of Global Entrepreneurship Week in Santiago, Chile, earn the universal sign of approval. LEFT, Peter Jones, renowned investor from the hit BBC show "Dragons' Den," points to Global Entrepreneurship Week's growing exposure on the streets of London. ABOVE, German design students get creative and have fun with the GEW "compass" logo.



- The Power of Global Entrepreneurship Week -

"We have been involved with Global Entrepreneurship Week in the United States and around the world. It gives a combined rallying cry for creating businesses, employing people, sustaining economic growth, and solving problems."

Jack Kosakowski, executive vice president and chief operating officer of JA Worldwide;  
president and chief executive officer of Junior Achievement USA

"China is building an innovation-oriented country. We particularly need to unleash everyone's innovative and entrepreneurial spirit. Millions of Chinese youth participate in hosted Global Entrepreneurship Week activities."

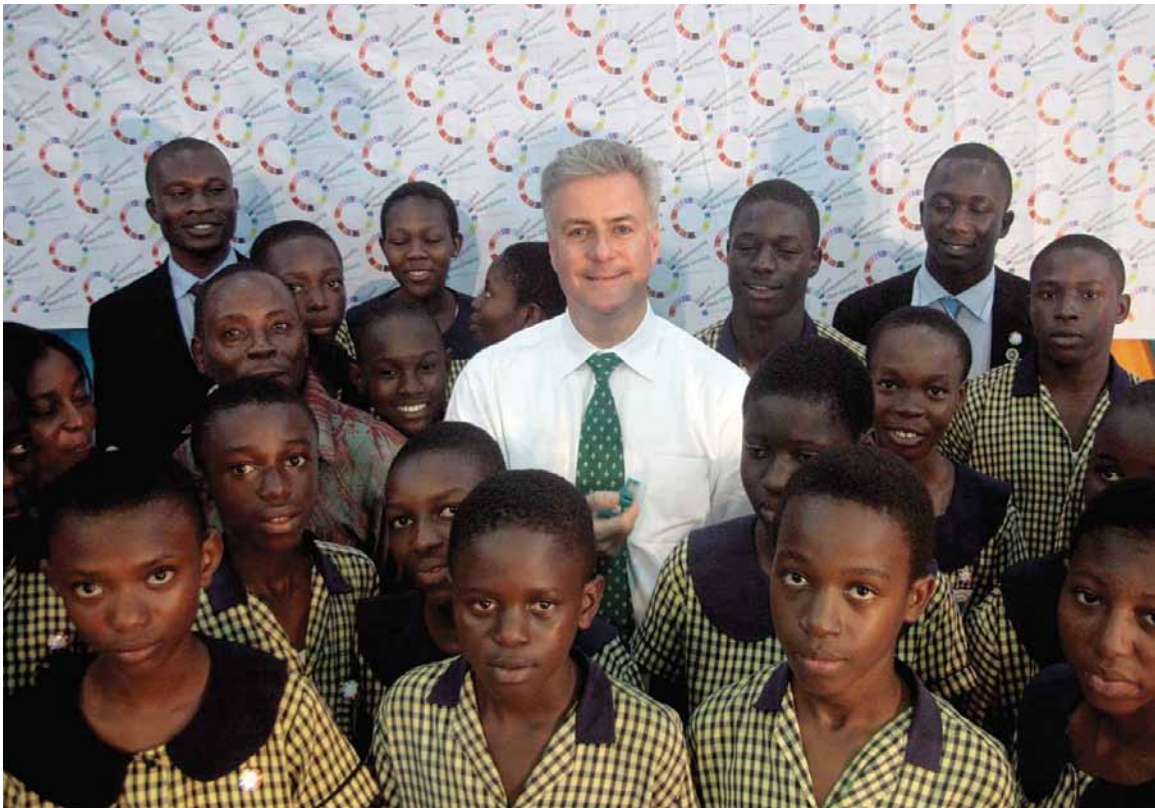
Yan Jungi, vice chairwoman of the National People's Congress of China

"It has been the risk takers, the doers, the makers of things who have carried us up the long, rugged path toward prosperity and freedom."

Hillary Rodham Clinton, United States Secretary of State

"Whether we are letting the world know about entrepreneurship or just furthering entrepreneurship within an organization, there is something for everyone to embrace during Global Entrepreneurship Week."

Siamak Taghaddos, co-founder and chief executive officer, Grasshopper Group



## - The Power of Global Entrepreneurship Week -

"In Denmark, we now will focus on renewed growth and entrepreneurship. We have to encourage every person with an idea, the right motivation, and the will to become an entrepreneur to pursue his or her dreams. I see Global Entrepreneurship Week as one way of making this happen."

Brian Mikkelsen, minister of economic and business affairs, Denmark

"We wanted to have a big landmark event on campus that could attract a lot of attention and a lot of support. Global Entrepreneurship Week resonated with us, and we've embraced the idea. Students want something that's real, something they can control, and entrepreneurship definitely provides that path."

Howie Rhee, managing director, Center for Entrepreneurship and Innovation, Fuqua School of Business, Duke University

"In this new decade, we face many challenges. However, by learning from each other and sharing new ideas, young entrepreneurs across the world are prepared to solve these problems."

Karen Mills, administrator, United States Small Business Administration

"As the director for entrepreneurship in the Netherlands, I'm certainly looking forward to the next Global Entrepreneurship Week and the burst of energy the young entrepreneurs will bring to our society."

Rinke Zonneveld, entrepreneurship director, Ministry of Economic Affairs, Netherlands



LEFT, Jonathan Ortman of the Kauffman Foundation surrounded by inspiring young students in Accra, Ghana, during a GEW event in Africa. ABOVE, Achievers International students trade products at the London Stock Exchange to begin the countdown to Global Entrepreneurship Week.

- The Power of Global Entrepreneurship Week -

"We want to get kids involved from not just the business school, but, more importantly, engineering and communications, and our Marine school, and law, and medicine. We want all those kids together in the same room to listen to that entrepreneur's story. We want to plant the seed. You don't have to know everything when you start."

Susan Amat, executive director, The Launch Pad,  
University of Miami

"Global Entrepreneurship Week provides a year-long mechanism for people to get involved in entrepreneurship and a focal point for the movement."

Rex Northen, executive director, Global Cleantech Open



ABOVE, GEW Italian host, META Group, recreated the "Compass" logo using members of its own staff and board of directors to get people excited about the Week.





## Empowering Entrepreneurs A New Pillar of American Foreign Policy

STEVEN R. KOLTAI

Senior Advisor for Entrepreneurship, U.S. Department of State

The ancient proverb, often attributed to Lao Tzu, tells us that when you give a man a fish, you feed him for a day, but when you teach him to fish, you feed him for a lifetime. While rarely cited as the foundation for foreign policy, these common-sense words capture the spirit of entrepreneurship as a core component of American efforts to advance economic development around the world. This focus is especially appropriate given that millions around the world observe Global Entrepreneurship Week annually every November and as the United States celebrates the launch of the Global Entrepreneurship Program in Jakarta with one of our fastest-growing trading partners, Indonesia (see page 163 for an essay by one of the driving forces of Indonesia's entrepreneurship transformation).

The new emphasis on entrepreneurship stems from a long-held American belief in the power of individuals and their ideas. Entrepreneurs and the new businesses they create are the engines of economic growth and job creation, which, in turn, are the underpinnings of stability and opportunity. Applied to an international context, as Secretary of State Hillary Clinton has explained, it's an approach "based on investment, not aid; on supporting local leadership and ideas rather than imposing our own."

In the spirit of fulfilling a pledge that President Obama made in Cairo in June 2009, the administration aims to spark a cooperative international effort by

governments, NGOs, and private-sector participants to improve the environment necessary to allow entrepreneurs to flourish. In April 2009, the President hosted the first-ever Summit on Entrepreneurship, gathering 250 entrepreneurs from fifty-five countries in Washington. One of the delegates to this Presidential Summit on Entrepreneurship likened the experience to “getting an MBA from the best global university in the world.” The Summit has sparked many follow-up conferences.

The administration’s international entrepreneurship effort is being led from the State Department, where we have created the Global Entrepreneurship Program (GEP). This program harnesses a variety of tools and instruments that support and empower potentially high-impact entrepreneurs overseas. The GEP catalyzes, coordinates, and consults with private partners and government agencies in the United States and in target countries around six key areas considered essential to creating successful entrepreneurial ecosystems.

In some countries, the GEP is driven by Entrepreneurs in Residence (EIRs) and local GEP offices. EIRs will help to coordinate and expand partner programs on the ground, and also act as role model mentors based on their business experience both in the United States and in their host countries. While EIRs have long existed in venture capital firms and universities, they are new to the world of international economic development.

GEP partners are drawn from five key sectors: NGOs, corporations, colleges and universities, foundations, and financial institutions (especially private equity, venture capital, and other investment capital firms). These partners will work with U.S. agencies, especially the Agency for International Development, the Overseas Private Investment Corporation, and the Millennium Challenge Corporation, along with key institutions in the target countries. This new methodology is a

dramatic departure from approaches taken in the past, engaging the private sector in a leading and innovative way.

The six areas of focus for the GEP will be to identify, train, connect, and facilitate funding for entrepreneurs as it works to provide better support in the public-policy sector and publicly celebrates

entrepreneurs' successes. In each of these six areas, GEP aims to generate partnerships that extend what already is being done. For example, to "identify" many new entrepreneurs, one partner may run a competition for business plan ideas while another provides aspiring

entrepreneurs with training that gives them a better chance at attracting funding.

Both partner programs will be strengthened through the coordination of their efforts.

Supporting entrepreneurship not only helps emerging economies where we work, but also is good for American businesses and investors.

Some GEP program areas bring new or expanded tools to emerging markets.

For example, angel investing is nascent or non-existent in many developing countries. Yet, according to the Angel Capital Association, which was spun off from the Kauffman Foundation a few years ago, more than 90 percent of U.S. startups benefit from angel investment. That's especially interesting because fewer than 20 percent ever receive traditional venture capital backing.

The GEP initiative is extending the model of angel investing that has developed in the United States by helping to start investor groups in several of the countries where it is operating.

Supporting entrepreneurship not only helps emerging economies where we work, but also is good for American businesses and investors. It develops new

customers in new markets, and allows U.S. investors to participate in the growth of these countries.

As President Obama put it, nurturing entrepreneurship is about helping individuals “take a chance on a dream—taking an idea that starts around a kitchen table or in a garage, and turning it into a new business, and even new industries, that can change the world.” The administration’s Global Entrepreneurship Program is a bold new effort we expect to become a permanent part of American foreign economic and development policy.



## The Ciputra Quantum Leap

### Making Indonesia an Entrepreneurial Nation

Hc. IR. CIPUTRA, Hon. Ph.D.

Founder of Ciputra Group and Universitas Ciputra Entrepreneurship Center (UCEC)

Entrepreneurship holds the key to the future of the developing world. Entrepreneurship brought me from a state of childhood poverty to a life of philanthropy. And just as my own experience as an entrepreneur reaped rewards I never imagined, I believe embracing entrepreneurship will enable nations to make a “quantum leap” from despair to prosperity.

The hardships of my childhood gave me the desire to make a better life for my family. I was born in a remote village of Sulawesi Island on August 24, 1931. When I was twelve years old, my father was taken prisoner by the enemy and imprisoned on false charges of espionage. He died in captivity. We never learned where he was buried. My family not only lost our father but our small grocery store as well. The Japanese left us impoverished. But I vowed not to remain poor. In my career, I helped found three large property development groups in Indonesia: Jaya Group, Metropolitan Group, and Ciputra Group. The groups currently employ more than 15,000 people and pay taxes in excess of \$100 million annually. I also have investment experiences in the United States (Hawaii), Singapore, India, Vietnam, Cambodia, and China.

In 2001, when I was in my early seventies, I wondered why education had not empowered Indonesia and other poor and developing nations to build

their economies and reduce chronic unemployment. I soon realized what was missing from our education system. We don't teach entrepreneurship. In more than fifty years in business, I learned not only how to emerge from poverty, but also how to generate wealth and create prosperity. I call entrepreneurship the ability to turn dirt and scrap into gold. I realized that, if the precious competency of entrepreneurship could lead me to such success, that competency should be shared for the betterment of the world.

I call entrepreneurship  
the ability to turn dirt  
and scrap into gold.

### Can We Change Our Nation?

I knew the remedy for my beloved country. My next challenge was turning the idea into a reality. How could I convince the country to believe in entrepreneurship? How could I reach the decision-makers of the nation? How could I raise the awareness of people who live in a culture that is not so friendly to entrepreneurship? How could I gain momentum and scale up the impact nationally?

These are big questions. They led me to a very basic philosophy that innovative entrepreneurship must include opportunity creation, innovation, and calculated risk-taking. With the opportunity before hundreds of millions of Indonesians, my next step was to create an innovation strategy to reach our people effectively and efficiently.

After much thought and reflection I came up with the idea of GABS (Government, Academician, Business, and Social Figures). Deep down in my heart I had the strong conviction that, if I could create a network with all the key people of GABS, I would be able to leverage the movement and multiply the impact tremendously.

### Milestone 1: Universitas Ciputra and Universitas Ciputra Entrepreneurship Center

My first step was to establish Universitas Ciputra (University of Ciputra) in 2006. This university was prepared to bring entrepreneurship as the main theme for all students. Every Wednesday all students from every department must study one single subject: entrepreneurship. After I saw good results of this university, I enlarged my goal to include entrepreneurship education into our K–12 schools. In a short time, I understood that entrepreneurship for the nation means entrepreneurship in the education system from the early ages. I created a new social venture—Ciputra Entrepreneurship Foundation—with the public name UCEC (University of Ciputra Entrepreneurship Center). The main vision of UCEC is to promote entrepreneurship to all people, create curriculum, and train the trainers.

### Milestone 2: Reaching Out

I focused my efforts on reaching the key people of GABS. I knocked on the doors of our national leaders asking to meet with them and present an idea. I did road shows in big cities and major universities to meet rectors and their students. I created and supported national events on entrepreneurship and invited media to raise awareness and create confidence in entrepreneurship.

### Milestone 3: Establishing a Public Prototype

My campaign received its first good response from Irwan Abdullah, Ph.D., the director of graduate school at the Universitas Gadjah Mada, the oldest and one of the largest universities in Indonesia. In mid-2007, we established a pilot program for young, would-be entrepreneurs. We worked with the graduate school at Gadjah Mada University to create an intensive, three-month post-graduate program in entrepreneurship. In its first outing, the Campus Entrepreneurship

Program (CEP) attracted more than 200 applicants, of which we accepted just twenty-eight students. Sixty percent of the first graduating class remains active in the businesses they conceived during the program.

After the success of the pilot program, I thought we should build up the CEP nationwide. But we had a problem. Indonesia lacks teachers who are well educated in entrepreneurship. So we decided to develop a program to create as many educators and trainers in the principles and practice of entrepreneurship as possible.

With the help of PT Bank Mandiri, we designed a five-day “Training of Trainers” (TOT) course. In our first outing, we trained one hundred lecturers from about twenty prestigious Indonesian universities. The first two days were tough. Our trainers were met with stiff resistance. But by the end of the week, the student-trainers accepted what we were trying to teach. That success encouraged us to present the TOT program to as many partners as we could find.

#### Milestone 4: TOT Program Initiated and Funded by the Government

The success of our initial TOT program for lecturers encouraged me to knock on the door of Higher Education Director General Fasli Jalal, Ph.D. The government quickly took notice of our work. We won enthusiastic support from Dr. Fasli Djalal, currently deputy minister of national education. With his help, and in collaboration with other private and government institutions, we’ve graduated more than 1,800 lecturers across Indonesia from the TOT program, with 1,300 graduates in 2009 alone. Our national momentum successfully convinced the government to support us, and we scaled up our impact and reached more than 350 universities.



## National Momentum, Presidential Seal of Approval

In the course of our campaign, I developed a close friendship with Dr. Dino Patti Djalal, President Yudhoyono's spokesman on foreign affairs. With his help, I submitted to the president a policy brief on the importance of entrepreneurial education for Indonesia's economic development and government's role in promoting a culture of entrepreneurship. I co-authored the paper with Jacob Utama, a successful entrepreneur in his own right, and submitted it on October 28, 2009. To our surprise, the next morning President Yudhoyono cited our paper in his opening remarks before an audience of 2,000 at the 2009 Indonesian National Summit. The president said he completely agreed with us that Indonesia's national education system should be transformed through entrepreneurship education.

President Yudhoyono's endorsement effectively triggered a nationwide implementation of entrepreneurship education. In the wake of this event, we have been approached by national and international organizations on entrepreneurship to disseminate entrepreneurial education to wider audiences in Indonesia.

### How Kauffman Helped

On our journey to build entrepreneurship training in Indonesia, we developed a very personal and wonderful relationship with the Kauffman Foundation. We first became acquainted with the Kauffman Foundation in 2008. I met Carl Schramm, president of the Foundation, at the World Entrepreneur Of The Year Awards in Monte Carlo that year, not long after meeting a Kauffman representative in Jakarta. In a very short time, the Foundation has broadened our perspective and helped Indonesia become an emerging entrepreneurial nation.

At our first meeting, I asked Dr. Schramm to help us augment our teacher-training program. The result was the Global Faculty Visitors Program. Five lecturers from Indonesia participated in the Foundation's inaugural 2009 program in Kansas City and another fifteen lecturers took part in 2010. One of the program's graduates was named deputy rector of academic affairs at Tarumanagara University, which serves more than 16,000 students. Tarumanagara is home to a new undergraduate entrepreneurship program and the first graduate course on entrepreneurship in Indonesia. These are the seeds of future courses and programs in entrepreneurship.

Currently, we are focused on drafting the government's master plan for a national entrepreneurial education curriculum. Our objectives are to reduce poverty and unemployment by promoting a new culture of individual entrepreneurship.

#### Milestone 5: The Next Big Challenge

Our entrepreneurship spirit never sleeps. We always challenge ourselves to create new things and have a bigger impact. After the entrepreneurship movement gained national momentum and presidential approval, I continued to think about bringing it to a new scale to become massive and spread quickly. I was so blessed by the invitation of President Barack Obama to be a panelist at the Presidential Summit on Entrepreneurship in April 2010 in Washington, D.C. Although I could not attend due to my health, I was represented by Mr. Antonius Tanan, president of UCEC. I am so glad we were invited because we learned of the Global Entrepreneurship Program (GEP), a new opportunity in which the U.S. government promotes entrepreneurship among Muslim-majority countries. Indonesia was chosen to be the second pilot country.

So I have my next big challenge. If I can be a bridge joining the GABS of Indonesia and the GEP of the United States, I believe the cooperation between the two countries will significantly impact the future of entrepreneurship in my country. That is my dream, and that is my prayer too.



# Global Entrepreneurship Education

## Redefining the Role of Venture Capital and Incubators

An interview with MAURIZIO ROSSI

Partner, H-Farm

*While the Internet matures as a global business space and new technologies create new platforms for communication, entrepreneurship itself also is evolving. Traditional incubation and venture capital models may not always be responsive to the changing nature, and even culture, of startups. An emerging “global entrepreneurship education” model offers a framework for supporting startups around the world, providing both financial resources and mentorship on issues such as strategy, branding, and corporate structure.*

*Founded in 2005, H-Farm is an international organization, with incubation centers in Italy, the United States, and India, that immerses itself in the cultures of three countries to help startups meet market demands and overcome capital challenges, from seeding to succeeding at the global level. Here, H-Farm partner Maurizio Rossi shares insights about the model, H-Farm’s own challenges and lessons learned during its international expansion, and the future of collaborative entrepreneurship.*

Where did the concept of H-Farm come from? Who or what other organizations were influential in your initial plans?

The H-Farm concept is inspired by a human-centric philosophy, wherein technology must be simple, and by the agricultural metaphor, which expresses the startup life cycle from seed to “harvest.” Therefore, the location and design of our work environment were strategic decisions for H-Farm. For this reason, we chose a natural country farm just a few miles from Venice and converted rustic farmhouses into the company headquarters and working facilities.

Our primary influence comes from web technologies’ momentum as an innovation driver. We believe that the twenty-first century will bring the technology revolution that will redefine most of the existing business models.

Did building H-Farm outside of a city (Venice) not known for its entrepreneurial output present some unique challenges?

Most of our challenges are not presented by geography, but rather by others factors.

H-Farm is located in the country outside Venice, in northeastern Italy, one of the most important regions in terms of economics. The facilities are a few minutes away from the airport, freeway, and railway hub.

Our main difficulties, instead, are the lack of venture capital, a weak investor community, and a very small M&A market. To overcome these issues, we implemented the incubator with a financial arm that enables the growth of startups from seed stage to early stage before approaching partners or further capital co-investors.

How is your approach different than other models or incubators that work with startups?

Basically, the H-Farm model hybridizes the capital and services arms of the traditional incubator model to better support the startup life cycle with a full range of services, including coaching, mentoring, and seed and follow-on capital.

Who are the ideal candidates for H-Farm?

H-Farm is an ecosystem that aggregates people engaged in digital culture, and passionate about the Internet and the power of technology. The principal attitude that startup candidates share is an entrepreneurial focus, which is crucial to building a strong team around a project that will face multiple challenges during the early stage of the startup life cycle.

With offices in Seattle and Mumbai, and plans for more expansion, what have you learned about expanding outside of Italy? How much of the H-Farm model transcends geography versus needing to be localized to better support new offices?

Through our expansion to different countries with different cultures, we did learn things concerning the time to market and the community clusters, as well as other aspects. For H-Farm, adapting to these different geographical locations is not just a market opportunity to grow our business, but a necessity to overcome some of the issues related to the lack of investors and M&A opportunities. The current organization does not scale the original H-Farm model in the United States and India; rather, it integrates them as branch offices.

What advice would you give to a group outside of a traditional entrepreneurial cluster that wanted to recreate some of the success you've had at H-Farm?

The success of H-Farm belongs to its unique situation. It's a mix of our core values, like our vision and campus-like environment, and the challenges we faced to operate effectively in Italy. Certainly, H-Farm in some ways represents a new school of thought about the incubator scenario, and the way we "cultivate" a startup is a key feature of our model.

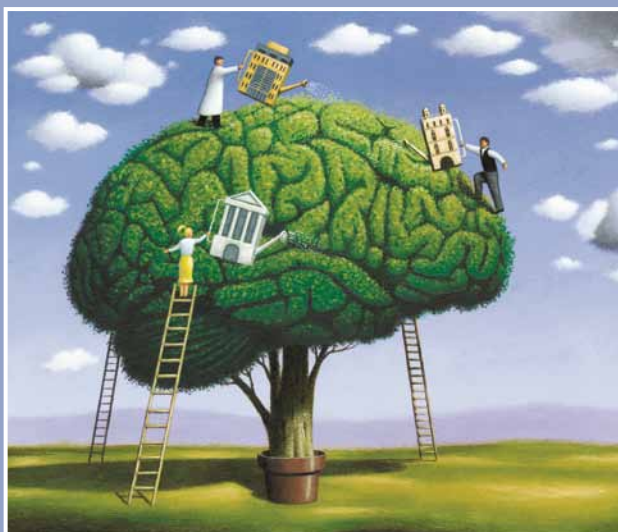
How do you anticipate your model will change over the next five years?

This is not an easy question to answer, as things are moving very fast. H-Farm wants to become the first startup center in Europe, meaning we must enhance our structure to attract and support the growing stream of opportunities. First of all, we have to improve our financial arm. We're looking potentially toward an IPO and to establishing H-Farm as an evergreen fund. In the meantime, we have an ongoing project to create a digital entrepreneurship school that makes sense within our ecosystem, and develop a wider approach toward the seed stage.

Is there anything else you would like to add about your organization or how important entrepreneurship is globally?

We can consider entrepreneurship and startups to be relevant answers for future generations of young people in terms of education, expression, and lifestyle, enabling them to change the rules and models. Incubators, for a variety of reasons, can be assimilated to a new university generation in which youth can work in their fields of study or interests. Incubators like H-Farm can be the places to attract new ideas and people to work together.

# Growing Together



## Our Credo

Our founder, Ewing Kauffman, aspired to advance human welfare by creating future generations of entrepreneurs. Consistent with this aim, Mr. Kauffman also realized the importance of young people obtaining a quality education. In seeking to make real his vision, we, the associates of the Ewing Marion Kauffman Foundation, embrace the following beliefs:

- We are privileged to do this work.
- Our pursuit of excellence, with no conventional market signals, requires relentless self-examination and conviction to the ever-increasing importance of the Foundation's work.
- Our success requires continuous personal and intellectual growth, careful listening, honesty and openness in challenging one another, personal and corporate humility, and high-quality teamwork, leavened by a sense of humor.
- We must avoid conflicts of interest, honor trust, and maintain appropriate confidentiality.
- We are responsible for making prudent, wise, and leveraged use of all our resources, including our reputation, fellow associates, ideas, networks, and money.
- We will make a meaningful difference by recognizing and pursuing opportunities, thinking creatively, taking thoughtful action, undertaking responsible risks, nurturing our culture of open dialog, and seeking continuous self-renewal.
- We must hold ourselves to high standards of effective grantmaking and our grantees to high standards of performance, measured wherever possible. We are guided by research, purposeful discussion, fact-based judgments, fairness, clearly articulated expectations, and by acknowledging and sharing our failures and successes with others.



## Our Goals for Growth

*At the Kauffman Foundation, we define our five primary assets as our reputation, our people, our ideas, our networks, and our money, and we devote them all to systematic and sustained innovation. It falls to associates to match our ideals with structure, meaningful programs, and tangible results. Here associates offer their thoughts about the projects they are working on and the opportunities to grow good ideas into something great.*



"The Kauffman Foundation does not shy away from hard work. Being the first foundation to start a charter school is risky, but the reward of providing an opportunity for young people to attend an academically challenging and enriching school is well worth the risk and the hard work it will take to get it done."

Julie Holland

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"I've seen the Foundation take off on a new trajectory to accomplish Ewing Kauffman's vision. Through Kauffman Labs, we hope to inspire people and generate a new wave of entrepreneurs that is going to change the world."

Adam Hofmann

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## - Our Goals for Growth -

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"We designed the iBridge Network to allow all innovations, no matter how big or small, to be accessible on a public web platform. Now we are building another web application, iStart, to allow ideas to live after business plan competitions. With transparency and access, any idea can become something big."

Katie Petersen

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"Minority entrepreneurs are losing out on billions of dollars of revenue annually by not making the most of technology. As we strive to assist minority businesses through the Urban Entrepreneur Partnership, we are looking for ways to bridge the technology systems gap that has prevented those entrepreneurs from growing their businesses into scale firms."

Kevin Lockett

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"The Foundation's role in creating and launching the Ewing Marion Kauffman School represents philanthropy at its boldest. We approach the rugged terrain of public education with humility, but also with a determination to see students succeed. Our work is anchored in the conviction shared by everyone involved in the Kauffman School project that all children, regardless of circumstance or personal challenges, can learn and achieve at a high level."

Aaron North

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"Through the years, I've seen the increasing impact our research has had on the public discourse about entrepreneurial activity. Our research does more than just consistently show that entrepreneurs and innovation are the true drivers of economic growth. It illustrates the importance of creating the right policy environments that allow entrepreneurs to succeed."

Jared Konczal



## Creating a Place Where Ideas Can Thrive

NANCY McCULLOUGH

Vice President and Treasurer, Ewing Marion Kauffman Foundation

Philanthropic foundations can become prisoners of their best ideas.

In the realm in which modern philanthropy must operate to develop and advance new concepts, some notions never make it past the idea stage. Others cast a bright light for a time before fading or sparking other ideas, and some just never glow with the promise initially envisioned.

But what about the ideas that grow to meet or even exceed expectations? In the foundation world, it actually may be easier to cut our losses than manage our wins.

High-performing operating programs can expand to consume more than their share of resources. They gobble up time and money, and staff can struggle to take on the day-to-day weight of administering these programs.

Faced with the challenge of finding a place where great programs can scale, we established Kauffman Support Services, Inc., in 2010 as an affiliate of the Ewing Marion Kauffman Foundation.

We created Kauffman Support Services to maximize operational strength and efficiency by centralizing key back-office functions and making them available across multiple Kauffman operating programs. As the sole or primary funder for

## Key considerations that led to the formation of Kauffman Support Services

- Operating programs, while small organizations to start, still have sophisticated finance, accounting, human resources, legal, information technology, and communications needs.
- Qualified personnel with substantial operational experience are needed to lead and advise affiliate operating programs.
- In the early stages of an affiliate's formation, there is generally a mismatch between available resources and funding required to staff administration appropriately.
- For a small organization, obtaining a reasonably priced health care plan is a challenge.
- Kauffman, as sole or primary funder, has a vested interest in the success of these organizations, including moving them to be self-sustaining—thus the need for oversight, transparency, and quality support.
- A model or process for startup affiliate administration will help avoid inefficiencies caused by “recreating the wheel.”

these operating programs, Kauffman has a vested interest in moving them in the form of affiliate entities to successful self-sustaining organizations.

Kauffman Support Services provides operating support to these Kauffman operating programs:

- Ewing Marion Kauffman School
- Kauffman FastTrac
- Kauffman Labs for Enterprise Creation
- Kauffman Scholars, Inc.
- Urban Entrepreneur Partnership

These operating programs, as early stage, independent organizations, often do not have the resources to justify full-time employees in administrative areas where expertise is critical to success. And while

many of these services can be contracted, the cost can be high and the attention less focused. Combining resources of the Kauffman operating programs affords improved quality, a higher level of expertise, and greater cost efficiency.

Specifically, Kauffman Support Services provides operational and management advisory services, business development, financial management, human resources and payroll services, corporate governance and legal services, communications and marketing services, and information technology services. To structure the

work, we have hired functional expertise, shared the cost of expertise across the multiple organizations, dedicated staff with incentives aimed at responsiveness, and established best practices. This structure affords additional oversight, transparency, and the assurance of quality support for each of the affiliate operating programs, which is critical given our vested interest in their success.

Kauffman Support Services bills the individual affiliate operating programs based on appropriate cost drivers such as headcount, annual expenses, annual revenue, etc. This allows affiliates to consider the value of services received while also appropriately reflecting the costs associated with them in their financial results.

The creation of Kauffman Support Services places us in uncharted territory. The process can never be perfect, but within our framework, we are prepared to make adjustments as we move ahead.

In our view, we owe it to these successful initiatives and proven programs to create a home where they can grow to their fullest potential. We believe that through Kauffman Support Services, these organizations will be better poised to achieve even greater things, ultimately helping even more individuals to participate successfully in our economy and society.

# Startups Under the Microscope

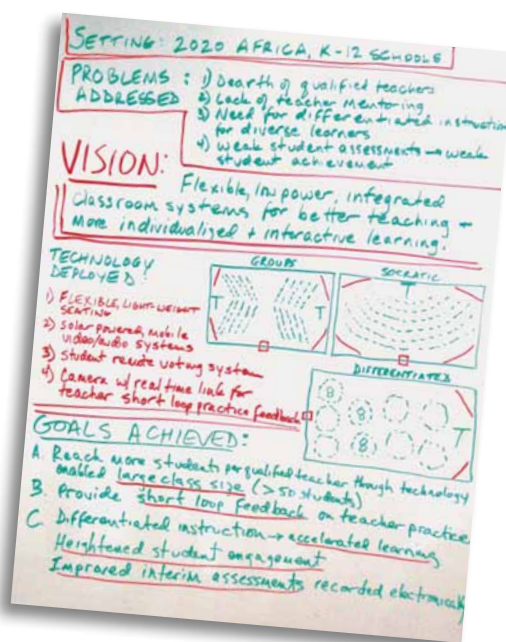
## An Entrepreneurial Lab for High-Growth Startups

As the name of one of Kauffman's newest programs suggests, Kauffman Labs for Enterprise Creation is a multifaceted approach to putting the science of startups to the test. The experiments in Kauffman Labs bring aspiring entrepreneurs together and help them turn their bright ideas into successful high-growth firms. (See page 98 for more on Kauffman Labs.)

The Labs process begins in the 10,000-square-foot north wing of the Kauffman Foundation in Kansas City, which has been transformed into a one-of-a-kind laboratory for firm formation. The innovative space is designed to promote collaboration and brainstorming in teams, small groups, and classroom settings.

This lab puts founders and new firm fundamentals under the microscope.

In November 2010, Kauffman Labs hosted a weeklong boot camp for the finalists of its first market-sector offering—the Education Ventures Program. The following photos depict the enthusiasm, passion, and intensity of some of the more than forty eager entrepreneurs who were selected to attend.



- Under the Microscope -





- Under the Microscope -





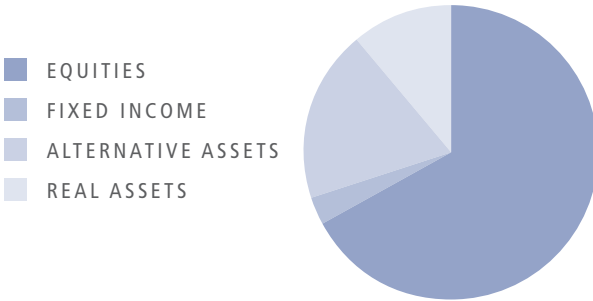
- Under the Microscope -



# Foundation Endowment and Investment Performance

AS OF DECEMBER 31, 2010

## ASSET ALLOCATION \*



TOTAL ASSETS = \$1.9 BILLION \*

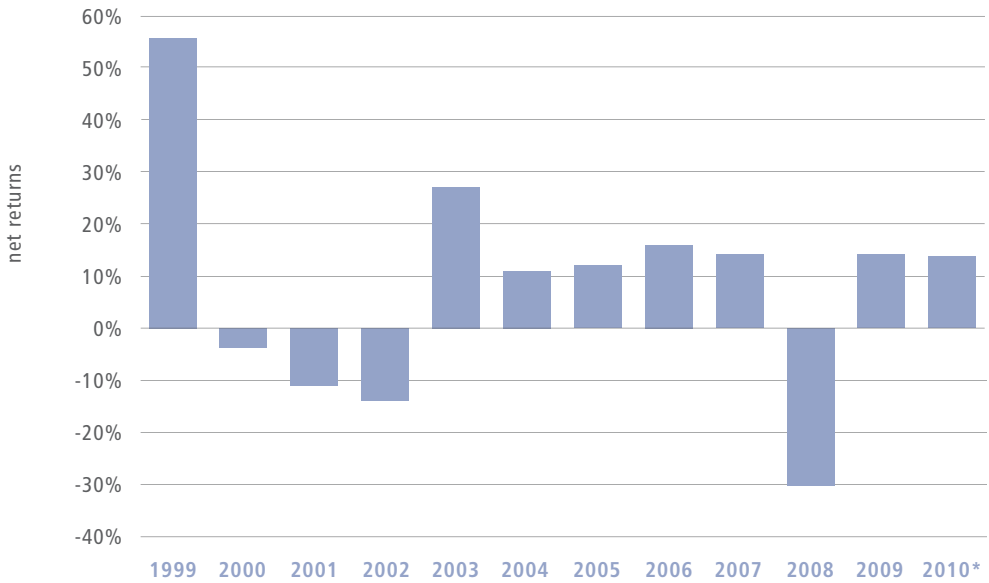
For the year ended December 31, 2010, the Ewing Marion Kauffman Foundation's investment portfolio posted an estimated net return of 13.5 percent\* led by the performance of public equities.

## Financial Statement

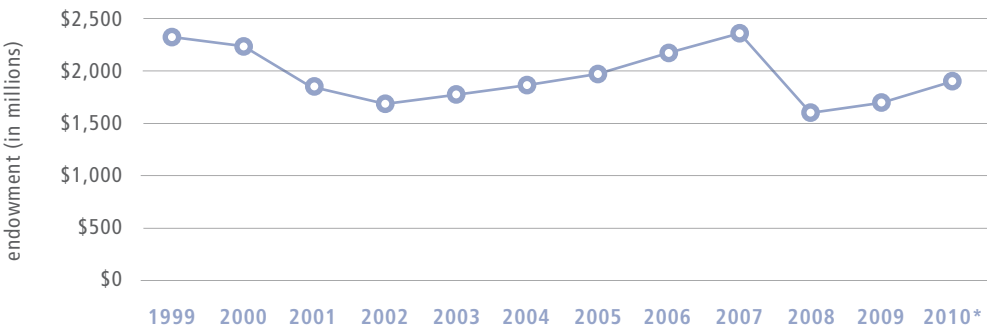
Please visit our website at [www.kauffman.org](http://www.kauffman.org) to view the most current annual financial statement and to see a listing of grants awarded through the prior month.

\*Figures for 2010 represent preliminary, unaudited results.

INVESTMENT PERFORMANCE



TOTAL ENDOWMENT



\*Figures for 2010 represent preliminary, unaudited results.

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Tell us at [yourthoughts@kauffman.org](mailto:yourthoughts@kauffman.org)

Ewing Marion  
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Foundation

4801 Rockhill Road  
Kansas City, Missouri 64110  
[www.kauffman.org](http://www.kauffman.org)

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